MINUTES

FINANCE / PARKS & RECREATION /
PUBLIC WORKS PROGRAMS COMMITTEE
December 7, 2011

A meeting of the Finance / Parks & Recreation / Public Works Programs Committee of the Council of the County of Kaua'i, State of Hawai'i, was called to order by Councilmember Tim Bynum, Committee Chair, at the Council Chamber, 4396 Rice Street, Suite 209, Līhu'e, Kaua'i, Hawai'i 96766,on December 7, 2011 at 11:25 a.m., after which the following members answered the call of the roll:

Honorable Tim Bynum
Honorable KipuKai Kuali'i (Excused at 4:27 p.m.)
Honorable Nadine K. Nakamura
Honorable Mel Rapozo
Honorable JoAnn A. Yukimura
Honorable Dickie Chang, Ex-Officio Member
Honorable Jay Furfaro, Ex-Officio Member

The Committee proceeded on its agenda items, as follows:

Minutes of the November 9, 2011 Finance / Parks & Recreation / Public Works Programs Committee.

Minutes of the November 23, 2011 Finance / Parks & Recreation / Public Works Programs Committee.

Upon motion duly made by Councilmember Kuali'i, seconded by Councilmember Yukimura, and unanimously carried, the Minutes of the November 9, 2011 Finance / Parks & Recreation / Public Works Programs Committee and the Minutes of the November 23, 2011 Finance / Parks & Recreation / Public Works Programs Committee were approved.

The Committee proceeded on its agenda items, as shown in the following Committee Reports which are incorporated herein by reference:

CR-FPP 2011-16: on Bill No. 2417 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAX *(For the Tax Year 2013)*
[Approved as amended.]

Bill No. 2408 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, RELATING TO HOME EXEMPTIONS
[This item was deferred.]

Mr. Bynum: I have a presentation on this bill and so I'd like to turn over the meeting for this item to Councilmember Yukimura as the Vice Chair is Mel and he is not present, if that's okay?

Ms. Yukimura: That's fine. So...

Mr. Bynum: I'm going to move so I can look at this thing.

Ms. Yukimura: Right. So as the pro tem I want to ask Mr. Bynum to make his presentation.

Mr. Bynum: Thank you very much. We've been talking taxes the last few months at Council. We have on today's agenda the second of two bills that did comprehensive tax reform; and tax issues are very important and complex. So I would appreciate the Committee's indulgence today in that I want to present a lot of research and material I've been working on over the last few months. What I've said previously is that Bill No. 2416 and Bill No. 2417, the bills that came from the Administration, make kind of an overhaul of the whole 5A Tax Code and have many provisions that change the structure, structurally how we assess property taxes. In some instances, those impact revenue and will in the future, but they do not contain any provisions that make significant dialog or changes to who pays what, or what portion of the tax bills are paid. And so, you know when it comes to taxation I think it's very important to all of us that when we collect taxes from our citizens and businesses and people who own property here, that we do that as fairly and equitably as possible. That's why having this comprehensive look at our Tax Code is really important and it is as we'll see not the first effort at doing that. But in the process of doing this research, two important issues came up that are related to trying to address this issue that I want to share with the Council and the public.

The first has to do with access to information. One of the frustrations I felt as a Councilmember since I've been here is how, at times, difficult it is to access information in order to make good judgments on our part. In most instances it's things that we need to look at structurally to make access to information easier. It's not intended to be difficult, it just is because of the systems that we have and the things that have built up. In this instance the information I was very interested in was kind of complex tax data: what's the history of the assessments; what assessed values have been established over a period of years for both individual properties and collectively; if we make changes to tax rates or to homeowners exemptions; what is the impact of Council revenue on County revenues; what is the impact for individual homeowners in different categories; and that data exists and is very...But I've had real difficulty accessing it in a way that was meaningful. So I want to share that, just a little bit, that several months ago I was in O'ahu for an extended, fairly extended period. I had my County laptop there and I was trying to continue to work while I had to be in O'ahu, and I was looking at one of the sources of information that is available to everyone which is: kauairealpropertytax.com. It's a web based portal I think I got it right that is really intended for consumers to look at their own tax record and tax history. You can put in your address or your TMK (Tax Map Key) number and look at your property. And I was really interested in tax history of especially the homestead class and so I would go...I was there in O'ahu going through this, looking at individual properties and it does share what the tax bill has been over the last ten (10) years, what the current assessment is for an individual property, how the tax is calculated, what the payments are twice a year, then when we collect the taxes. It doesn't have, it's not, there's no way to look at though the aggregate data; to look at all of the data for all of the properties. And there's no way to look at the assessment history. You can see what this current year's assessment is for both land and building but you can't look back and see what it was in 2004 or 2006. So as frustrated that I, was difficult to access that more extensive data. But even this, I'm there clicking through these properties and all of a sudden a splash screen comes up that says "you've reached your data limit" and I was locked out. Well I went to another computer and started working for a while and I got locked out. I sent correspondence at that time saying – hey, I need access to this data how do I get unlocked and by the way I need access to more data, how can we do that. For various reasons that data was unavailable to me for four (4), more than four (4) months; so it made it really difficult to do any analysis. And it brought up some structural problems in that the Council and in this instance and I believe in others is dependent on the Administration to get access to data, to get access to finance data. And we're sometimes dependent on the Administration to do an analysis of that data and I think that is a structural concern that I have going forward. I believe the County Council is an independent body from the Administration and we should not, we cannot task Administrative employees with things to do. We can make requests but it has to go through channels, and I don't think we as a body should be dependent on the Administration to access information to fulfill our responsibilities. I think this is the case in many instances but in this tax data it was very frustrating and it delayed action on my part for several months. I would've liked to have bills that related to homeowners exemption and tax rates on the agenda much sooner than they've been able to get there, because to have a meaningful discussion you need accurate and complete information. So I want to, that's kind of a side issue that really played over the last five or six months.

The other reason it's important is because I've discovered that it's often difficult to make changes to the tax system. So, I had been hoping that during this budget year when we went to budget in April and May that there would be an initiative from the Administration to address tax rates and who pays what; what portion of the taxes get paid. When I discovered...so, in April we had our certified tax rolls were certified near the end of April; I believe the date was April 28. That same day in that same time period, it was clear to me that the Administration was not going to propose changes to rates or propose changes to other things that impact who pays what portion of the tax burden. I put the bill that we're here to discuss today, Bill No. 2408 and made the request that same day we got the certified tax roll. So we received this information in April that gave us an idea of what our tax revenue is going to be; we finally had complete data. Then that same day, I requested that Bill No. 2408 be placed on the agenda and it was placed on the agenda pretty quickly early in May. But then I got a memo and I'm happy to share these memos with other Councilmembers, from the Administration saying – it's too late, we cannot process any changes to the homeowners exemption and have it impact this fiscal year, the one that we're currently in. I think structurally that's really problematic. Once we get the data we need to know, or the information to know what our fiscal condition is, we should be able to go into budget and make changes that impact the next fiscal year. And so I think structurally that's an issue. So this Bill No. 2408 was initially intended, by me, to be a vehicle to offer some tax relief to the homestead class in this fiscal year. It became clear that that was impossible because for some reason our tax calculation...changing our software is a cumbersome task. Now I've come to believe, and we can ask the Administration more about this, that once of the reasons it's so cumbersome is because we put so many unique burdens on the real property tax system about tax calculation. Whether it's the circuit breaker that we've passed in the past, or the timeshare bill or the timeshare situation which requires Real Property to calculate timeshare's values differently than all other properties. Or the 2% or permanent home use agenda that was, or bill that was passed in 2004 or 2005 requires this incredibly complex tax calculations to implement. And so I think it's really important we look at that because hey, I wasn't able to use changes in the homeowners exemption to impact this fiscal year. So then I send a memo to the Administration and said – well if we can't change that this year how, you know, I'm contemplating the idea of having a tax credit on the January billing. Now this is, you know, last...four or five months before the January billing. I'm saying, what if I wanted to author a bill to give a tax credit to homeowners in their January billing. When I got the answer back, it was – it's too late, it's too late, we can't do it, the calculations will take too long, too late. So now I was contemplating amending Bill No. 2408 to be for next tax year. If we can't do it this fiscal year let's do it next year. Now this is months before the budgeting even begins and I've gotten a response back from the Administration - we may not be able to do that, we can't get the tax calculations done even if you pass this bill now for next fiscal year. I have very serious concerns about that. So the first two items I talked about are related to this bill is one is: accessing information and data. I believe it's important in the future that the Council have independent access to that data, not rely on the Administration to do it and then frankly not burden them with our work. We send them over a memo and they have their own work to do and all of a sudden they got to jump to respond to the Administration...to us. So I discussed this with the Council Chair and I hope to discuss it in the future with the rest of Council, that we structurally provide ourselves more independence so we're not dependent on the Administration to do our legislative duties. So I appreciate you letting me discuss those before I get into the meat of this Bill No. 2408 presentation.

With that I'd like to start with a PowerPoint. The first few slides are to put things in perspective. This is from our Auditor and his report to the public and this year, and we discussed this at the last Council meeting in relationship to a reserve policy but currently, the County is carrying a...in my opinion, a very large unreserved General Fund balance. Now these are all numbers from our certified account...our CAFR (Comprehensive Annual Financial Report) or our audited report, sorry, our independent audits. This can be reported several ways; it can be reported as total fund balance or unreserved fund balance which is the total fund balance minus the committed and the self-insurance fund. Sometimes the Administration reports what they call the unassigned reserve. So, but, you know, needless to say in the last four you can see in this chart from 2006 the unreserved funds available to this County have ballooned over the last five years. This chart's a little more detailed and these are all numbers from our audit report. It shows you this General Fund balance, one way to report it is the total General Fund balance which this year was $68.8 million and this chart has the history which shows that kind of ballooning of the reserve. Now, if you subtract funds from that total that are committed, that are contractually committed but not yet encumbered and the self insurance fund you come up with this term unreserved fund which last year was, fiscal year was $58,613,00.00. Now the Administration out of that reserve each year assigns a portion in order to present a balanced budget; it's a budgeting procedure. Last year the assigned to the budget was $15 million. But then at the end of the year when we get the new audit, when we figure, when we close the books did that reserve fund get depleted by that $15 million? And the answer for almost every year in the last 10 years is no. We didn't actually use any of that $15 million in the budget and in fact the figure on the right was, in a, had an additional $14,600,00.00 and then you can see the figures where how that fund has ballooned.

So I just wanted to say that in the context of this discussion today we are currently in a pretty high reserve rate. One of the ways that happens is the way we budget. 2010 total budget was $112 million, this is the General Fund, $112 million but at the end of the year the actuals were $96 million or a $16 million variance. So you look at this, we didn't use that $15 million because one of the main reasons is we in essence budget a lot more than we intend to spend. You know, it's a different discussion about whether that's wise or good and it really is a decision of the Council about the budget. So that's to put this in perspective.

When it comes to the annual budget too, the chart, this is the Charter section and I wanted to say that it's important to, that the Council shall enact an (inaudible) ordinance, the Mayor gives us recommendations but it's the Council's responsibility to enact the budget ordinance. And it has operation and capital expenditures and the method of financing the same. So it's the Council's responsibility to see that we have sufficient revenue and that's one of our primary goals; our primary duties under the Charter. So taxes I believe our current tax system is in need of an overhaul and we're involved in that process now and I very much appreciate the Administration putting forward yet another comprehensive tax proposal because that's not new. It was recognized some time ago that it was important to do a comprehensive overview of the tax system. If you do say a bill that impacts timeshares 15 years ago, that may have changed but you're only looking at a portion of the tax system. And so over the years this piecemeal created a situation I think we all agree, where there wasn't the equity and fairness in the system we needed, so we needed to not do it a piece at a time but look at it in a comprehensive view.

To that end, in 2004 was a real property tax task force that was citizen led with cooperation with the, you know, the County. They worked for a long time and came up with proposals that they presented to Council, there and, any Councilmembers who are interested I have all of these minutes from these meetings because I wanted to review them to get a sense of where we are today and how we move forward. But the bottom line of that was none of those proposals were enacted by the Council. There was a lot of discussion, meetings, workshops, the bill was left pending and eventually was received. Now there also was a citizen involved 'Ohana Charter amendment that passed in 2004 and it's kind of infamous and I won't go into a lot of detail. But basically, it would've rolled back taxes to a previous year and cap them for the homestead class for the residents who occupy and own their homes. It's kind of famous that this was challenged in the Supreme Court and the Hawai'i State Supreme Court overturned the 'Ohana amendment so it never went into play. However, at the time Councilmember Furfaro along with Daryl Kaneshiro adopted the permanent home use bill or commonly known as the 2% cap. And so, that bill basically took the 2003 assessed values and made sure that tax bills for the homestead class would not go, be any greater than a 2% increase each year. That bill and a subsequent bill that made modifications both said that they were interim temporary measures, that's right in the preamble or the purpose section saying – the Council intends to do this as a temporary measure while we look at comprehensive tax reform. And we do this temporarily because we're responding to a rapidly escalating market in terms of assessed values. We all remember this big run up of values that happened in the early part of this decade. That was a temporary bill in 2004 and we're still operating under that bill.

Now in 2008 the Administration brought a bill RPI and I can't remember right now what that stands for, Real Property Initiative. They brought a comprehensive tax bill in 2008 and you know, right as that bill, just before that bill came forward, the Real Property Tax task force recommendations from 2004 were received by the Council. And if you read those minutes, the Council says – look we're going to receive this, thanks for your good work Citizens Committee, but we're going to receive this because we have this assurance that there's this comprehensive real property tax initiative coming. By 2008 I was on the Council and we had many meetings about the real property initiative, there were amendments, there were workshops, we went back and forth, and at one point the bill was deferred pending a second workshop. That's the current status of those bills, the workshop never happened and the changes, the temporary changes we initiated in 2004 continued. Now in April of 2011, I sat at the front end, I thought that those temporary changes that work well in an escalating market were having unintended consequences in a de-escalating market and increasing the inequities in our tax system, that relief for the homestead class was warranted, and that's when I put this Bill No. 2408 on the agenda, and as I've already said, it was too late to make changes for this fiscal year. Hopefully it's not too late to make changes for next fiscal year. Now, and then the Administration put forward before us of October of this year Bills No. 2416 and 2417. So I want to give that history because it's really important that we put this in context. So, and this shows some of what we all experienced. In the early part of the decade there was not only an escalation in assessed values, but an escalation of property tax revenue. We went from $41 million in 2002 to a peak of $90 million in 2008. And in 2008 is when the Administration is saying – hey, we got to reform this tax system. The market was just starting to turn and because of a reduction of assessed values, we have been losing revenue. Our revenue last year was $79 million, we're down around $10 million from the peak of 2008.

Now, the 2%, I want to move to the 2% cap, that temporary measure we took in place, we put in place to shield homeowners from a rapid escalation in their property. So here I want to take just on the side for a minute, the standard process of assessing real property tax is that our real property people do an assessed value of each building and piece of land on Kaua'i to the best of their ability, make a credible assessment, and taxation is assessed value times the current rate equals your bill. So if assessed values go up, doesn't necessarily mean your bill goes up, it's time for the Council to reduce the rates. So, not all rate reductions result in a change in the tax bill. In fact, the Council has not changed any tax rates for several years and the last time we did we changed, we lowered all the rates a nickel $0.05. Everyone except the homestead had a reduction, I forget what year, 2006 I think. But that did not result in lower bills because the assessed value was going up right? So the nickel didn't compensate the five cent reduction in rates didn't compensate for the assessed values so tax bills continued to go up. So I'm sure I want the public to understand if they're watching this, that typically property tax is assessed value times rate determines your bill. What we did with the homestead class in 2004 however was we changed that. We said – no, we're going to cap your bill regardless of what your assessed values do, you know, regardless of what rate changes we make, we're going to cap it so your bill doesn't go up more than 2%. And so the next few slides are examples of the impact that has on individual properties. And so you can see in this property, this is a typical scenario. Taxes were fairly low in the $400.00 to $500.00 range for this particular home. They had a pretty dramatic increase in 2004 just when the cap came into place. And then from 2004 to 2009, the taxes only went up 2%; they were predictable, understandable. But then what happened in 2010 when the taxes for this property went from $1,260.00 to over $2,000.00 are a very large increase in just one year. What happened was, that somebody new bought the home. Because the cap only went with existing homeowners, when homes sold, the rate, the new tax bill got reset at the full assessed value at a rate that has not been changed for seven or eight years. So to look at this more closely, the purple line in this slide shows the calculated taxes. What would the taxes be without the cap? When you look at the assessed value and you see how dramatically they escalated, the assessed values, the green line shows the actual bills that were paid and the blue line shows how much permanent home use credit was required in order to keep those taxes down. And so, the problem here, one of the problems that I've discovered is for new homebuyers. If this home sold at any stage along this timeline, if for instance when it reached its peak in 2007 the new homeowner would pay $2,187.00 not a $1,211.00. And homes in the homestead class do turnover. Many people stay put in their homes for many years, but as a class there's pretty high turnover in the homestead class compared to say the commercial class where commercial buildings don't turnover as often. So...so the property, this is, this is the taxes that were paid on this home whose 2011 value is $478,100.00, kind of maybe above the median right now, median price. Here's another home on Hauaala Road in Kapa'a, similar kind of thing, the only difference here is that this home sold in 2009. So you see that the taxes were going up, they got capped, the green line represents what the calculated taxes would be and the red line represents the permanent home use credit that's required. This home sold in 2009 and the individual, the new individual paid not $1,271.00 what the prior owner paid but $1,924.00; so a pretty substantial increase. Now because the assessed values are going down, this home is not capped for this new owner anymore. It would only be capped if the assessed values went up. And so, in 2010 their taxes went down again because of lower assessed values. But they're still substantially higher than the capped rate that the previous owner paid. So here's a similar home Ainapua Place in Wailua Homesteads. You can see the taxes in 2009 when the home sold went from $971.00 to $2,100.00, so some of these changes can be very dramatic. Now they, it's come down and there may be several factors that brought this down. That 2011 may not have included the homeowners exemption and then the homeowners exemption would kick in. This is the kind, I'd like to give you an exact answer but I haven't been able to access the data to know exactly what happened with this home. But I believe this does illustrate a trend that's happening all over the island. So you see the same thing that the calculated taxes went up dramatically, so if anyone bought this home anywhere along that line, even if they're resident homeowners, their taxes would go up dramatically. In this instance, say in 2007 the capped taxes were $952.00 a new owner would've paid $2,404.00 or what is that? $1,500.00 more per year.

Now this example is an interesting example to me, this is a home in 'Omao. A little different situation, it was a capped home on a large parcel with a modest plantation home. In 2007 the owner CPR'd the lot and so what was left was a smaller lot with a modest plantation style home on it and a vacant lot. So the red line represents the taxes on the lot with a home, and the green line represents the taxes on the now newly created vacant parcel. But the County's revenue on this went from $919.00 to $3,500.00 in one year. Now you see both of those properties are no longer capped so as the assessed values have come down, the property taxes come down. But the owner of this home is, which is now a home on a much smaller lot, right, is paying $1,306.00 this fiscal year when the previous owner on a large lot, on a much more larger parcel, was paying only $919.00. I have real concerns about new homeowners paying so much of a large difference.

This one is really fascinating, I want to say that I lived on Laukea Place in Wailua Houselots for 13 years. I loved living in the houselots, it was great, I had a wonderful neighborhood with great neighbors and I wanted to look at this neighborhood because a lot of homes are custom on Kaua'i but in this instance the homes on Laukea Place were all built at once. They're about 1,000 square feet on

8,000 square foot lots, they're modest three bedroom two bath homes and have wonderful people. These were two of my neighbors and so I expect, and they both of these neighbors have lived in their homes for more than 20 years so I expected to see their taxes being exactly the same. And so I was really surprised to see this difference that one neighbor is paying $1,100.00 or $1,200 when the other neighbor is paying $500.00. Even before the cap there was differentiation. So with the help from Real Property I found out what the story was. The story was, that the homeowner on the top had never filed his homeowners exemption. He didn't know that for years he'd been paying several hundred dollars more in taxes every year than his next door neighbor. But, when his taxes went from $869.00 to $1,103.00 in one year, it got his attention and he said – hey what's up. And Real Property said – hey you never filed your homeowners exemption so of course he filed it right away. So you would think, okay now he's in the same boat as his neighbor so it'll self correct right, he will pay the same amount...no. Because our temporary 2% cap measure, he...his assessed value, so this, and this is also a neighborhood that got, has modest homes so the taxes were fairly low, you know, comparably $500.00 or $600.00 a year. But the one house on the bottom got capped in 2000, based on 2003 rates, the house on the top got capped based on subsequent year's rates. And so it doesn't self correct and this inequity would perpetuate virtually forever unless the value fell below where it was in 2003. Now we all hope that that won't happen, we've already had a very large de-escalation of values and there are some good things about that, but there's some, and we don't, I don't think as a community we want that to continue. And you can see the guy on the top, he actually had the cap during 1, 2, 3, 4, 5 years, and eventually his values fell below so his taxes went down. But they will always be greater than his neighbor unless the value of his home falls very dramatically, which is unlikely to occur.

As I was going through all of this though, the other thing I noticed was – wow, some of these middle class neighborhoods got capped with their taxes really, seems low in the $500.00 or $600.00 range. Other neighborhoods with the same valued homes got capped in the $1,000.00 range. I think it's clear now that, and one of the reasons I want to see this assessed history, historic data, is it's clear to me that our, the credibility of our assessments in 2003 were poor. That there were lucky neighborhoods that hadn't been reassessed for several years or had low assessments that got locked into these rates at a low rate. And there are other neighborhoods with similarly valued homes that were unlucky and got capped in when they had a recent reassessment at a higher level. That again is an inequity that will continue virtually forever unless we do something to change this temporary program we set up in 2004.

So, so what does that mean in terms of the tax classes? Over the last three years, as our assessed values have gone down, seven of our tax classes are in that old system, the standard system of assessed value times rate equals your tax bill. Now, the Council has not changed the rates in six or seven years and so if the values went down we'd expect those properties to have lower tax bills and indeed they do. But the homestead class is in a unique situation right? They're no longer, most of the people tied to the assessed values, they're tied to this cap. And even though the assessed values are going down, the tax bills still goes up. And a combination of those people who were reset at higher rates and it going up 2% a year means that the homestead class has been paying increasing taxes while every other class is paying decreasing taxes.

Yes, anytime.

Ms. Yukimura: Go ahead Councilmember Nakamura.

Ms. Nakamura: Is it, when you say the homestead class has been...when you say the homestead class has been paying an increased portion of overall taxes, are you saying "all" in that class or the "new purchasers" in that class?

Mr. Bynum: No, I'm saying as a class the tax bill, that class is paying...

Ms. Nakamura: Right, right. Within that class, isn't it a certain portion that are paying higher than others?

Mr. Bynum: Yes. Some are paying 2% more each year, others are paying...

Ms. Nakamura: 100% more.

Mr. Bynum: More because, or 1,000%...yes, 100% more. Now they're...

Ms. Nakamura: So I just wanted to clarify, within the homestead class it's just a certain...it's not everyone across, it's not equally paying more, some more than others based on...

Mr. Bynum: No.
Ms. Nakamura: The circumstances of when they purchased the property.

Mr. Bynum: Right. Thank you for that question because one of the things I think about taxes is – we want to know we're all being treated equally right? So, let's say I own a commercial property and I might think that – Council you made my taxes too high, the rate is too high, or right? But I want to know that I'm in the same situation as every other commercial property. So if it's done improperly, it's done improperly to everyone equally right? The homestead class now has hundreds of different circumstances. You know, was I capped at the beginning or did I get capped later? Was I capped in a lucky neighborhood where the values were assessed low? Or was I capped in a neighborhood where the values were assessed high? Did I buy my house in 2007 and my taxes have come down some because I'm now having a lower assessed value? And we've seen those examples right? So, so what does this mean in terms of the difference in just three years? In 2008, the classes paid "x" amount of tax, three years later in 2011 what's the difference just year to year? Compare 2008 to 2011, this next few charts show that. In the conservation class the 2011 taxes were 24% less than in 2008. Agriculture – 22%, single family residential – 16%. Now I need to say something about the single family residential class, that is made up of a number of different uses. There are some people who have homeowners exemption in that class if they live on a property that has more than one house on it. So maybe one house is their primary residence, but the other house is a rental or a vacation rental or something else; they fall into the single family residential class. It's a...but a lot of that class are single family residents that are second homes; the owner lives out of state, they're not residents on Kaua'i. We know that we have a lot of really wealthy people that own very high end homes that don't live here fulltime, they fall into that single family residential rate and their taxes have been going down. Apartment is again a mixed class, it may have people with residential homes.

There are 12,200 homeowners exemptions this year, over 10,000 of those are in the homestead class so the bulk of them are there. But the other ones are mixed up into apartment, ag, and single family residential. So it gets, but as a class even though those homeowners with the cap have been paying more, right, as a class, because that also has vacation rentals and these second homes. The apartment class is a lot of the condominiums that are used by the visitor industry, hotels and resorts is pretty self explanatory it's the hotel and resort, commercial, and industrial. But these classes, and then so, when all of these classes most are paying significant reduction in taxes, the homestead in just three years has gone up 20%. What does that mean in terms of dollars? Because each class has different valuations, and this is just the difference between 2008 and 2011. So the taxes collected from ag for instance are $3.6 million less than they were in 2008. In hotel and resort the 2011 taxes are $2.2 million less than they were in 2008. In the homestead class they are $1.5 million more than they were in 2008. And you see the numbers down there of how many units or how many parcels are in each class. So you see like hotel and resort has 3,600 parcels, homestead has 10,474. So...now, and then we got to look at has that changed in three years? Has the parcel count, are we collecting less taxes from ag because there's fewer parcels right? No. There actually is a lot more parcels. All of these, every class has additional parcels except the homestead class. I think this is a very sad story. The class is paying 20% more in taxes even though there are 310 fewer homeowners paying those taxes. Who are those 310 people? Normally we would expect growth, we want more people to own homes, but we're in very difficult economic times for many people. Some of those 310 are foreclosures, those are people who lost their homes because they couldn't keep the payments and they sold it and are now renters. I find that statistic of fewer homeowners a very sad one.

What does this mean over a three year period? Now this is just year to year from 2008 to 2011 what's the change. What is it over that three year period just from the taxes collected in 2009, 2010, and 2011 is in this chart. We have collected $6.6 million fewer dollars from the homestead class, $4.1 million less from apartments, $179,000.00 less from commercial...

Ms. Yukimura: Wait you...

Mr. Bynum: Yes?

Ms. Yukimura: I think you called the single family residential the homestead.

Mr. Bynum: No I haven't got there yet I'm going...

Ms. Yukimura: Oh, I'm sorry.

Mr. Bynum: I'm going left to right. Agriculture $8.36 million less from ag, conservation $1.4 million less, hotels and resorts have had $3.6 million less, their taxes in essence have gone down that much. In the homestead class the people who live and work on Kaua'i are paying $3.1 million more. In just three years we've lost about $24 million of revenue from people who don't live here and own homes here or do business here or, while the people who live and work here are paying $3.1 million more. I find this very concerning, I hope everyone does.

And just for, you know, to acknowledge what people are experiencing in this year's tax bill, we also added $1.5 million of trash fees onto tax bills. Meaning that local people are paying $4.6 million more in just three years while people who do business here and own homes that don't live here have a $24 million tax break. This is really serious. So what does that mean in terms of the burden? So I want to stop for one second here and say – our tax ordinance is very clear, it instructs the Council what to do each year about taxes. You can read that, it's two pages in 5A and it basically says, my summary is – first Council determine how much revenue you need from property tax next year to run the government, then have a policy discussion of who pays what portion of that. How much of that needed taxes should come from the people who live and work here: the homestead class. How much should come from commercial, how much should come from homes that are owned by people out-of-state, how much should come from hotels and resorts? And then when you make that determination, do the math and set the rates accordingly. I've been on the Council since 2006 and only in 2008 when we had that real property tax reform did we have a serious policy discussion about who pays what portion. Is there a question?

Ms. Yukimura: There's a question from Councilmember Kuali'i.

Mr. Kuali'i: Thank you for doing all this work Councilmember Bynum. I'm seeing all the different graphs and I share the concerns that you have, but the one thing I just kind of want to point out is that wouldn't you agree, that the seven other categories right, not the homestead, that because the Council didn't do anything with the rates, the reason they're paying less taxes is because we're in a down economy and the assessments are probably down. So to compare all of those seven categories that is affected by the assessment because we're using the assessment for them, with the homestead category we're now, we're not using the assessment because of the cap and because of the... what Councilmember Nakamura was talking about how really the rates are all suppressed, if you will, kept down by the cap.

Mr. Bynum: The bills.

Mr. Kuali'i: The tax bills and then when the property sells the new owner, their rates are now higher because it's up to where sort of the market is which may even at that year be lower than the year before or the year before because it's in a time where it's coming down. But, so, a lot of this increase which is still a bad thing I agree, is because of that. So, we're not really comparing apples and apples if you take these seven tax categories and you compare them with the homestead. So all of these statistics look really horrible but it's not really the accurate comparison because the seven categories are being determined by the market and assessments, and this category, the homestead, is being determined by the cap and then the not-cap when it's sold.

Mr. Bynum: Right.

Mr. Kuali'i: And so those huge jumps of 100% of course is going to add up to huge amount of revenues. So, but the point I think you're going to here is that it's showing that to have the cap was not the solution. It might have provided immediate relief and some security for all of our homeowners but it was meant to be temporary I think I heard you say earlier. Now it's been seven years and maybe at some point depends on what happens in the market it'll balance out again. But I think really we should be having accurate assessments, we should be using the assessments for all eight of our classifications and then the Council should act each year on the rates. Because acting on the rates and setting the rates 50% lower, 50% higher, not just a minimal $0.05 reduction. The calculations can be put in place so that once we know what revenue we need to end up with based on the expenses that we have in our budget for the new year, the Administration has in the budget, that we wouldn't collect any more than that. I mean, of course with the reserve and what have you, but then set all the rates and you know when you talked about the decision of who should pay what share, I mean there's standards out there which different communities use. But it's a policy call that this Council has to make when we're in the budget process.

Mr. Bynum: And I pretty much agree with everything you said because that's exactly the point. The taxes have gone down because we haven't changed the rates in those seven categories and the assessed values have fallen. And in a down economy having paying less taxes is probably a good thing as much as we can afford it. To have taxes go down when people are hurting is a good thing. But the homestead class is not enjoying that reduction like the other classes are, in fact they're seeing an increase.

Mr. Kuali'i: Because based on the data we had we didn't lower the rate and we should've?

Mr. Bynum: Well that's one of the reasons. But even if we lowered the rate it would, the people who are capped would still pay 2% more. So I hope to get this done by lunch time, the presentation, because it's going to answer some of your questions. You know in terms of what that did in terms of, the homestead class in 2007 was paying roughly 7% of the tax burden and now it's gone up to 11% and I believe it's higher than that. But let's look at that over a 10 year period because we as a community, and a...political people said we need, the residents need to pay less. And when the cap went into place it worked really well in an escalating market. It makes sense that that would have happened given the political times and the economic times and so you can see it came down dramatically from 11.86% to 7.38%. The cap initially did a great job in protecting homeowners. But in an escalating market it's done the opposite and that's why I'm arguing we need to make change. Now, in, so let me plow through this quickly so we don't run out of time. Let's just look at, you know, some people ask me – well how does this impact vacation rentals? So I've pulled out some at random that I could get the addresses for and for vacation rentals they've done really well in the last three years. I mean you can look at these examples. Now some of those like the one on, the big bar there on 'Anini Road you know, those are super high end homes right? And so they pay a lot of taxes but that one's had a $3,500.00 decrease in three years, you know, $4,000.00, $300.00, $2,000.00. So, now, I said in 2008 the Administration brought us a proposal and these are some of the...from the slides they presented in 2008 one of the things they said was, one of their general principles, and the reason they wanted to make a change in 2008 was equal and fair treatment of first homebuyers versus the PHU Program. They recognize the PHU Program was now not protecting homeowners but causing these inequities. And so they gave a proposal to increase the homeowner's exemption to these amounts, these are from the Administration slides: $300,000.00, $325,000.00, $350,000.00. The current, in 2008 and today, current exemptions are $48,960.00 and $120,000.00. So what they were saying is – with a combination of homeowners exemption and rates we want to lower taxes for the homestead class and the proposal in 2008 eliminated the cap. It would've taken it away and brought the homestead class back into assessed value times rate. So, and this is a chart from them that what they were suggesting because they were addressing who pays what and if you look at the far right it says in the homestead class we want to lower taxes 35%. This is three years...

Ms. Yukimura: Excuse me. Councilmember Bynum, I believe Councilmember Nakamura has a question.

Ms. Nakamura: This is just real quick because we're using acronyms, and for the public who's following along.

Mr. Bynum: Yes.

Ms. Nakamura: Can you just tell us what PHU means?

Mr. Bynum: Permanent Home Use. PHU, permanent home use, more commonly known as the 2% cap right? So, in 2008 the Administration said – hey, even though the rates paid by local people have come down we think they should come down even more right? We want to, so their proposal was to reduce taxes from the 2008 level by 35% for the homestead class. And they wanted it revenue neutral so they said – hey, we're going to ask hotel and resorts to pay 25% more and then you can go across the chart. Conservation will be a little less, agriculture, because that proposal will talk about resource lands and lands if that were forever going to be in ag. And so that was going to go down, but there was going to be proposed increases in apartment and improved residential for non-owner occupants. So they're saying those wealthy people who own high end homes or any home, as a second home they can afford to pay a little bit more of the tax burden. The hotel and resort industry can afford to pay a little bit more because we need to give a break to the homestead class. But we saw in earlier slides, it didn't go down 35% like it proposed in 2008 and it would've gone down even more if we didn't have this cap, it's actually gone up 20% the opposite of this intention. So again, reminding you, that's the outcome in three years. It didn't go down 35% it went up. And then we added on, so, what they proposed then was basically saying let's lower the taxes for people who live and work here and let's keep them low; and keep us going forward let's keep them low. I, that worked, I mean, so what you have right now is an, BC put the camera on me, in the homestead class you have a range like this right? The upper range are those people who got reestablished and you know are paying $800.00, $900.00, $1,000.00 more than their next door neighbors, and the low range are the people, the lucky people that got capped really low. Both the 2008 proposal would've brought everybody's taxes down below this cap right? And then move forward and said keep them low with the rates. That worked then if we would've implemented it and it will work now. So, what I'm proposing is, now the world has changed, it's not, the assessed values will come down so the right amount in my opinion is not $300,000.00 home exemption but it is $225,000.00, $250,000.00, $275,000.00. If we increase the homeowners exemption for people who live and work here and escalation is for age, right, $250,000.00 is for people 60 to 70 years, $275,000.00. So what that means is the first $225,000.00 of value is not taxed at all and then the value above that is taxed at a rate that you establish. And right now, in order to give a tax reduction of about $5.5 million for the homestead class, right, with, using this year's data would be a tax rate of $275,000.00.

Now the Administration wants to have that be a flat rate, we're voting on right now, changing having a land and building differential and having the land and building rates be the same. So if you do $225,000.00, $250,000.00, $275,000.00, and with a $275,000.00 tax rate, it would provide next year $5.4 million of relief for the homestead class. So I want to go back to this, remember, we were going to lower it. This is what happened since 2008, we were going to lower taxes by 35% then you would see, and remove the cap which means taxes would've come down even more. The homestead class would be paying $8 million or $10 million less this year not $4 million more. What I'm proposing is saying let's get the homestead people, the people that live and work here in the ball game and paying lower taxes like all the other people are. We've been taking this money from them even while we have surpluses. And so I think this is a very modest proposal. I really personally prefer it to be about $8 million but $5.4 million seems fair to me. So what does that mean, remember these houses right? This home on Hauaala Road, the current taxes are $1,650.00, they were as low $1,100.00; for this home if we did what I just suggested the new taxes would be $751.00. So we would do, kind of, some of what we suggested we would do in 2008 – lower taxes for the people who live here. And so, if you lower their taxes, this $751.00, that's below the current capped rate, you take that range, BC, that range that's now like this and you move the ceiling that range that's now like this you move the ceiling down close to the floor. So the people who are paying the biggest inequities have bigger tax breaks, but even people with the cap, most, get some tax break. Let's look at this one in Wailua Homesteads, under this proposal the taxes would go to $724.00. So a home assessed, this home assessed at about $488,000.00 which is kind of an upper middle class home in today's market, their taxes would be $724.00. Remember this home in 'Omao that got split? What would the homeowner, the person who moved into this home at a smaller lot, what would their taxes be under this proposal? They'd be $369.60 right? And this home is assessed, home and land at $359,000.00 so it's a more modest home; pays a lower tax. Remember this one on Laukea, okay, these are modest homes you know, and the taxes for the new homes that are assessed at $422,000.00 would be in the $250.00 to $300.00 range. And so, these guys both would pay lower taxes and we would get rid of the inequity. Now, this is where it's really emotional for me anyway, this is a TMK listing from a home that's for sale right now in Kawaihau. See that sales price - $209,000.00. We have historic opportunity right now that we haven't had for years to get young families and our children into home ownership because home prices, at the market, are lower than they've ever been right? And so, we have a whole housing agency that spends a lot of time and effort to get families into homes; it's a major issue. And there's an opportunity right now. So let's look at this home, this is a home that's currently for sale, the market taxes are the red line on the top, the green line are the PHU credits required to bring those taxes down to the bottom line of $371.00. So the owner in that home right now is paying $371.00. But let's say a young family on Kaua'i could muster up and get enough credit to buy a home at $209,000.00, under this proposal their new taxes in this modest home which is assessed value at $280,000.00 so one of the more modest homes on our island, their taxes will be $159.00. So this new owner doesn't have to worry about their taxes going from $371.00 to $887.00, they would have lower taxes. So what does that mean in terms of being able to buy a home? $887.00 is the taxes this new homeowner would pay under the current system, under the proposal I'm saying the taxes would be $159.00 or $61.00 a month less. $61.00 a month less in today's interest rates, if you applied that $60.00 you can have $13,000.00 more buying power. Does this make sense to people? It's like, and so we have this instance happening right now where people want to get into their homes, they can make it, they can get help from their families, they can make the down payment, FHA conventional for new homebuyers with 3% down, interest rates below 4%, and they can't do it because they have to factor in the tax increase. So, you know, I've told you I wanted this data for a very long time and couldn't get it, I finally got the data that I needed to make this analysis with the thanks of Mr. Hunt here who is one of our brilliant County employees who made a really nifty spreadsheet that I'd be happy to share with any of you that allows you to plug in these values. So let's look at that. You see the red ones are the values that can change, so I've plugged in the proposal I'm thinking is a good start, $225,000.00, $250,000.00, $275,000.00 for the exemptions with a new homestead rate of $275,000.00. Under that proposal the financial impact or the tax relief is $5.4 million, that top figure. That impacts 12,246 homestead parcels right? I mean not homestead, because this affects everybody no matter what class they're in. Resident homeowners, people that have homeowners exemption. Right now 8,733 of those people still have the permanent home use credit. Under this, the new, all but 1,000 of them would have, this in essence resets the cap because the tax proposal that we're playing does not eliminate the cap. It keeps it in place. But if we do this assessment and we bring this down, then we in essence reset it, reset the cap. And all of those people that are paying too much are going to be very close to the people that are paying low. The 1,383 that can, I'm sorry, 1,143 that continue that the current cap is better than this are the people who are paying the most favorable tax rates. So it takes the ceiling and brings it very close to the floor and in essence resets the cap for everyone. Now, the Administration has expressed a lot of concern about the number of people who would pay minimum tax...

Ms. Yukimura: Excuse me. We're at 12:30 p.m. right now, so can you finish up in 5 minutes?

Mr. Bynum: I can and then...

Ms. Yukimura: And then we'll come back after lunch.

Mr. Bynum: There's one letter we received I'd like to read after lunch.

Ms. Yukimura: Well we can continue this discussion after lunch.

Mr. Bynum: Well I can finish this I think in 5 minutes.

Ms. Yukimura: You can finish this...okay, please.

Mr. Bynum: Because this is, kind of the...so, you know, this is a proposal that I want to put forward. Under this 10,933 of our resident homeowners would pay a lower tax bill next year and the average savings would be $495.00. Under this proposal resident homeowners that because of this proposal would pay higher taxes is zero. The only people that would pay higher taxes are those that already have a very favorable low cap and they would go up 2% right? Is this making sense to everyone I hope. You know, I'll only be five minutes, remember this is what we have now. I personally think because we've had surpluses growing up to $53 million... $58 million that we can make this move and just keep all of the other classes taxes the same. It would mean $5 million less revenue to the Council but last year we had a surplus of $14 million over and above right? So we could use the surplus to do, to keep taxes low for everybody at least for a few years. But if we needed to make up the difference, right, if we wanted to make this revenue neutral where would we get the additional funds? I personally believe, and at Council this year I suggest that we increase the rates not to increase the tax bill but to not lose that much revenue in the seven classes. So, I'm not saying that any increases should only come from hotel and resort, I think they should come from all seven of the categories that have gotten significant relief by the assessed value going down. But I want to use hotels and resort as an example for several reasons. One is this, the tax rate on Kaua'i for hotels and resorts is far below every other island. The current rates right now are, you see, $12.40, $9.10, $9.85 on the other islands, ours is $7.53. What if we bump that $0.40? The rate, $0.40. In this instance for hotels and resorts this is what it would mean. In 2009 the revenue from hotels was $17.5 million, went down to $15.3 million, went down to $14.9 million. If we bumped it $0.40 next year, the rate would be $15.66 million. Still significantly lower than they paid just two years earlier right? And it would generate revenue of $819,000.00 right? So, not a big increase. Basically I'd be saying to the hotel class, your taxes have gone down from $17.5 million to $15 million, can you live with $819,000.00 more next year, still significantly lower than you were paying just a few years ago in order to give some relief to the people who live here and work in your hotels right? You know, to give you an example, in 2009, these are the tax rates for hotel and resort. You see that Hawai'i and Maui have increased their hotel rates. On Hawai'i by $0.85, on Maui by $0.90. And so, making a 40%...$0.40 increase in these other categories who have seen these savings is not very...But I don't even think that's necessary, I really think for the next few years while we're in a down economy we could fund this through reserves not long term, but just for the short term.

Ms. Yukimura: Your five minutes...please...tie up.

Mr. Bynum: I think this is the last one. Okay, I'll skip this but these are the tax rates if you use the rates other islands for Kaua'i what we would generate. If we used Honolulu's rates we'd generate $25 million not $14 million. Okay, this is the closing slide, I think...yes. Three year reduction from non-resident tax classes, $23 million...almost $24 million tax reduction from non-residents. For residents, a $3 million increase. I'm going to put forward this proposal and I'd like to continue after lunch, I'll only need about five more minutes.

Ms. Yukimura: And I think we might have people wanting to speak from the audience.

Mr. Bynum: Right. So, thank you for letting me go through this kind of complicated stuff.

Ms. Yukimura: Well I think this is very important subject matter and we, at least I appreciate the research you've done and what you've presented. So, we'll go into a lunch recess, we'll be back at 1:40 p.m., and we'll have public...well we have questions first from Councilmembers and then input from the public and then go from there. Thank you. Recess.

The meeting recessed at 12:35 p.m., reconvened at 1:42 p.m., and proceeded as follows:

Ms. Yukimura: So the meeting is, we're now back in session, Parks and Recreation and Finance. Mr. Bynum you finished, was there anything you wanted to add before we go into questions?

Mr. Bynum: Just a few things.

Ms. Yukimura: Okay.

Mr. Bynum: One is, I mentioned this spreadsheet which is what...this is the result that you can see from this analysis. So you can plug in different home exemptions and different rates and see the outcome. The key outcomes to me are the thing that says – new PHU count or removed from PHU. So if we did these rates and reset the cap, then 7,590 people would in essence would have a reset cap. The 1,143 that are left are the people who are currently paying the lowest rates. And the other thing I know that is important to the Administration and may be important to a lot of you is minimum tax. Under this proposal the amount of people receiving minimum tax goes up to 1,308. I'm not as concerned about that because about two-thirds of those people are seniors and all of those people are folks that live in the most modest homes that we have. Did you want to ask a question?

Ms. Yukimura: Councilmember Nakamura.

Ms. Nakamura: Councilmember Bynum, can you clarify the amount of the minimum tax?

Mr. Bynum: $25.00.

Ms. Nakamura: So 1,383 persons would pay the minimum tax of $25.00?

Mr. Bynum: That's correct. But those people are, like I said, about two-thirds of them are seniors and the...all of them, you pay the minimum tax because you have the lowest valued homes on the island.

Ms. Nakamura: Does that, but, I think the assumption that you're making is that all seniors have low incomes.

Mr. Bynum: No. The reason it's seniors is because in this formula there's an escalation of the homeowners exemption. So, Scott has the actual spreadsheet up here. Can you make that come up? So I want to just show, because I welcome you all to do your own analysis because...so this is, when we can see it, he's plugged in different values.

Ms. Yukimura: Can you move it to the left?

Mr. Bynum: Yes, I'm sure he's working on it. Give him a chance but...

Ms. Yukimura: Oh, I see, that's right that's Scott doing it.

Mr. Bynum: Anyone of you can see this spreadsheet, you can plug in different values and see what the outcome is both for individuals and for the whole class. So this one for instance, just for an example, I put in $175 without any escalation for age. So $175 as the exemption amount, and a $2.00 tax rate, right, will have about the same amount of revenue. I mean, it would have the same financial impact. So if you scroll up a little bit, Scott. But it changes significantly the minute...so that formula with a lower homeowners exemption and a lower rate has the same financial impact roughly, but it creates fewer minimum tax but it increases the number of people who...you know it doesn't deal with the inequity. And so, I believe, so this is my final thing and I wanted to read this letter that came is that I think...

Ms. Yukimura: Before you go can you explain what you mean when you say – it doesn't address the inequity.

Mr. Bynum: Right, I've tried to do that with my hands to say. Right now we have this much spread in terms of fairness. There's a lot of people paying way too much. There's some people that are paying pretty low taxes. And so when you look at that figure up there that says – removed from the PHU, that means and new PHU count, the lower that number is the more we've dealt with the inequity in the class.

Ms. Yukimura: Which number?

Mr. Bynum: The new PHU count under this scenario is $2,392.00. So we're still leaving a significant portion of that, of the spread in equity. So, there are different ways to accomplish this goal. To me, there were two goals in mind that I thought were important. First was to deal with the inequity, to get people in this class in the same boat so to speak so everybody is being treated equally. That's an important goal. Another goal for me personally, is I believe that it's appropriate to lower the taxes that are paid by resident homeowners. That going forward we should as a policy say that we're only going to collect 5% to 7% of our taxes from homeowners. This is a very difficult place to live. We are not a tax friendly environment, many states don't have sale...income tax, and we do. No state that I know of has a GE tax which compounds on everything. A 4% GE tax is equivalent to 12% or 14% sales tax. Because it taxes everything, services, medicine, food, and it taxes it again. And so, having low property taxes is a good policy decision for the resident class.

Ms. Yukimura: As long as you have enough to meet service needs.

Mr. Bynum: And we do. We have had a long history of having conservative fiscal policies, we're currently carrying a very large reserve, I always want us to have a large reserve. I want to continue to have conservative fiscal policies. It has served the County well but not at the expense of the homestead class. You know, I admit that I'm patterning this after Maui who have currently, they just changed their homeowners exemption which for many years was $300,000.00 with the tax rates of 2 or 250. And so, they made a policy decision long ago that the resident homeowners should pay, should have a very low tax rate because we live in a community where we have really wealthy people with high end homes that can afford to pay a decent tax rate. We have four star and five star resorts that taxes a very small percentage of that cash flow and they can afford to pay a little more. But being a middle class person in Hawai'i, on Kaua'i is tough we all know that. We have the highest electricity rates in the nation, the highest gas rates in the nation. And so, I'm trying to accomplish two goals. One very important, reduce, and if possible eliminate the inequity and lower taxes for the homestead class.

Ms. Yukimura: And presumably an unspoken goal is providing sufficient services now and into the future.

Mr. Bynum: And I think we will continue to do that, we have. I mean the County budget has doubled, the size of the County Government has doubled.

Ms. Yukimura: It's not...okay...it's not the size only it's how we make our choices.

Mr. Bynum: I understand that.

Ms. Yukimura: About what we're funding, we can fund something that's just an ongoing process or expand that without putting in the kinds of (inaudible) whether it's about food, self-sufficiency or oils, fuels, self-sufficiency and then be really stuck in another five-ten years. So...

Mr. Bynum: So I'd like to make one more point and then read this letter and then I'll be done with the presentation.

Ms. Yukimura: Okay. Alright, go ahead.

Mr. Bynum: The large homeowners exemption also is the element that makes this tax more progressive. That it helps people at low and middle income more. If you reduce the homeowners exemption and lower the rate to get the same amount of relief more of that relief goes to the high end, goes to the people who have larger more expensive homes. The homeowners exemption helps keep this progressive where people with modest homes get a bigger percentage of relief. So I'd like to read this letter because I added some slides just yesterday because, and I've talked to our housing folks but they're not ready to come over here. We all have had as a mission for years to get our young families into homeownership which a few years ago was darn near impossible without huge subsidies from government right? Right now there are opportunities even at market for people, you know, for young families to get into homes and they're not making it because of the tax increase. They look at that listing, that you look at a real estate webpage and it says – current taxes are 371 but I showed the example where if a young family bought that home for $209,000.00 their taxes would go to $887.00. They wouldn't have the $391.00. I'd like to lower the taxes for that modest home to about $150.00. Now I know that sounds low to a lot of people, but this is the working families that live here on Kaua'i. They should, in my opinion have a very low tax rate. It served Maui very well plus if that disposable income, families in middle income and lower income when they get additional dollars they use them to buy things for their families and they buy those things in small businesses here on Kaua'i. You know we know that right now the National governmental is saying – should we extend the middle tax cut to give $1,000.00 additional tax refund to the middle class because they will spend it and the CVO says it will stimulate the economy. That works on the local scale as well. If you give tax breaks to low and middle income people they use that for their life, it helps stimulate economic activity and small businesses. When you give tax breaks to wealthy people they don't, it doesn't translate into that kind of spending. So, I want to read this because I'm really concerned about this housing thing. The idea that...

Ms. Yukimura: Please (inaudible) read it.

Mr. Bynum: The idea that our young families don't get into their houses because we're jacking up the tax rates really surprised me. So, this is a letter that we received from Lisa Ledesma. My name is Lisa Ledesma and I was born and raised in Hawai'i. I've lived on the island of Kaua'i for 22 years and I work for Wells Fargo Home Mortgage. I've been in the mortgage lending field since 1986. I'm writing this letter to the County Council because I feel...felt the need to explain what I see on a daily basis. I'm sure you will not be surprised to hear that Kaua'i is a very expensive place to live. Unfortunately over the last 22 years, I've watched as our local residents have been shut out of purchasing homes here on Kaua'i while the continued...because of the continual increase in prices. They have had just...they have just, I'm sorry, they have just unable to afford. The market has been too expensive for them to get into. I have also had the opportunity to help some local residents get into homes and it's the best feeling in the world when I have the opportunity to say – congratulations, you're a homeowner on Kaua'i. Unfortunately I've seen many more disappointed residents than happy ones. As I said, the prices are just too high and for many of our local residences...residents. The reason for my letter is right now, Kaua'i has property values have dropped and I've been able to help more local residents get into homes. However, it's still not easy. In this down economy property taxes here on Kaua'i have risen even with our values dropping. Homebuyers see the property taxes in the MLS listings assuming that that's what their taxes will be. But we know that new buyers will pay more than the previous owner, sometimes a lot more. When clients come in to get prequalified I review their paperwork, qualify them for the home, and estimate the property taxes based on the value of the home they qualify for. Once they find their dream home they go into contract and we start the process only to find out that when we add the higher taxes that can literally disqualify them on the payment. Unfortunately we have to qualify them on the higher property taxes. I work with your Housing Agency to help young families on Kaua'i get into their first homes and it is really sad when they lose their chance only because of large tax increase. So really I guess what I'm requesting or pleading with you and the County Council is if you would seriously look at property taxes and revamp them, residents here on Kaua'i should have the opportunity to purchase homes and property taxes shouldn't be keeping them from owning their dream. Residents who already own homes should have the opportunity to live in their homes knowing that when retirement comes, they can still afford to keep the home and the property tax is not going to increase to a point that prevents them from affording their home. I recently met with Mr. Bynum and he graphically showed what I experience every day. Give residents here on Kaua'i the opportunity to have the discount we deserve on our property taxes. We live and work here and want our children to someday live and work here after college. But prices are chasing our children away. What I'm really trying to say and hope you will hear and seriously consider the plan Mr. Bynum shared with me as I believe it will help our local residents become new homeowners and our current homeowners retain the homes they already have. I ask you to give the local people that chance and ask for you to look for revenues in other areas besides property tax increases on primary residents. Thank you for this opportunity, I deeply hope that you will relook at our property tax bill. You all live here on Kaua'i so please take this to heart.

You know I've met with Ms. Ledesma because the Housing Agency said she was somebody who had gone out of her way to help them and help our young homeowners. And when I started to present this, before I even got, and I just showed her this same presentation, when I started to show this she says – yea but they're getting kicked out when the property taxes go up, before I even got there. And she's passionate about that because she cares deeply about getting these families into ownership. So I admit that I asked her to write this letter and give testimony but I think her perspective is very important for us. Thank you very much for your patience.

Ms. Yukimura: Thank you.

Mr. Bynum: The other thing I want to say is you can look, please take this spreadsheet, figure out: is there a better way than I'm suggesting to accomplish that goal of inequity. That's the dialog I wanted to have with the Administration and so far we haven't unfortunately. Thank you.

Ms. Yukimura: So, are you going to answer questions from here or do you want to stay there?

Mr. Bynum: I was going to come back and...

Ms. Yukimura: I mean if you want to refer to your charts maybe you should...

Mr. Bynum: Why do I feel more nervous here than I do...

Ms. Yukimura: Well now you know how many people feel.

Mr. Bynum: So you'd like me stay here?

Ms. Yukimura: Why don't you because we may want you to refer to your charts. Okay, so questions for Councilmember Bynum.

Mr. Chang: Thank you Councilmember Tim Bynum for that beautiful presentation. You know I wanted to ask you, when I look at a letter as such, wouldn't you think that the main reason, the unfortunate reason we're not able to get some of our young first time buyers, young owners or potential, any resident owner, wouldn't you say that the unfortunate main thing is just to be able to afford a down payment?

Mr. Bynum: Absolutely and that's why our housing agency does homeownership clinics with young families. Tries to explain to them what they need to do to get ready. But there are programs, USDA, some of which you wait in line at our Housing Agency the most favorable. But there's also USDA loans in the 3% range right now. The FHA first time homebuyer is a 3% down. So, help me do the math, 3% of $200,000.00 is $6,000.00. And so, you know, we all know that five years ago there wasn't a home on the island under, very few under $500,000.00 right? And so then that was a big, and then they, no way they can qualify for the loan. So, if you can get, save some savings, get some help from family which is how many people get into their first homes. Right now there's an opportunity. I would say to young people like I'm saying to my daughter, don't get that $300.00 car payment, you know, deal with the older car for a while and get yourself into homeownership because the benefits are huge in our society. When you pay rent it kind of goes away. When you pay into a mortgage, you get huge tax benefits and write-offs for that and you're building equity for your future right? And so, we all know how important homeownership is and to see this opportunity come and then have people get knocked out of it because their taxes are going to go up $800.00 higher than their neighbor, or $600.00, or even $400.00 because...You know a few weeks ago we were worried about if we required solar water heating even though there's an immediate return on investment it might jack up the price $5.00. Well I just showed you an example where it would go up $60.00 or $50.00 or $60.00 a month and that makes them less likely to be able to qualify for the loan. Did I answer your question?

Mr. Chang: Yes. And you also, a few minutes ago mentioned the County of Maui, what the island and the County of Maui is doing, can you re-elaborate on what you were...

Mr. Bynum: Yes. Maui, if you look at the, and I've given these documents, I passed them out here several times, but I have here with me today the tax rate history. If you look at Maui their, currently this year, their homeowners exemption is $300,000.00 and their rate is $2.50. Couple years ago it was $2.00 but again they are managing their property taxes. So when they see the values going down and the taxes going down they bump up the rate. So the homeowners rate went from $2.00 to $2.50 right? But that doesn't mean the homeowners paid more because they're in the assessed value. Now, they've had a multiyear trend of, just like us, of falling home values. So I just learned recently that for next year their home exemption rate is going to go down to $200,000.00. So after a multiyear trend, they change the homeowners exemption. Now, when they do the budget next year I'm predicting right now they will lower the rate. So the bills don't change that dramatically if they lowered the exemption by $100,000.00 and didn't change their rate, tax bills would go up. So the way I look at it, the homeowners exemption is the big lugger right? And if you set that as high as is reasonable, that's why the Administration in 2008 thought $300,000.00 and above was the right rate. But we've experienced that multiyear trend, so I'm suggesting it should be $225,000.00, $200,000.00 in that range. And, but then every year going forward we should do what our tax ordinance says: Have a really thoughtful analysis of what next year's tax bills are going to be and adjust the rates accordingly. So when the cap came in it was great. It protected homeowners class, it lowered the amount that was coming from them, it was intended to be temporary you know. The proposal we have before us keeps the cap, but if we lower this down where the cap basically isn't dealing with these huge anomalies, and then going forward we bandage the rates then the cap becomes a safety net in case we don't act, or for those unusual circumstances where something changes. So, the Mayor wants to keep the cap, the people love the cap, right, I personally think we, you know if I had my druthers we would do what was proposed in 2008; we lower the rates low enough that when the cap went away people still got lower tax rates and then we'd manage it going forward. But the Mayor really wanted to keep the cap so I said – okay, let's just deal with the inequity and going forward not allow those inequities to happen again. And we can do that. I don't know how we accomplished those two goals without doing about $5.5 million worth of tax relief which I think is very modest, that's probably what the class would have gotten if, you know, over the last few years anyway. You know, if I was sure I could get the votes I'd want to even go bigger. But I don't know how to go smaller and accomplish that goal and if you guys can help me understand that and have a better proposal, that's why I wanted to put this spreadsheet up. You can't have it both ways. If you're worried about minimum tax and you decrease the number that have minimum tax, then you're going to not deal with the inequity as well and you're going to put more of the relief at the high end, because it's that homeowners exemption that makes it more progressive. Or focusing the relief more on the...and you can see that, the other thing you can do with the spreadsheet if you just scroll up a little bit, or a lot. You know, this is the bottom of the spreadsheet. These columns, oh you don't have it where it keeps the titles yes? But, you know, and I really, I got to really recognize Steve Hunt who put this together in about a week I think it probably took you right? You know, that you can analyze the entire class with this spreadsheet. You can see individual homeowners what it'll...so if you sort it by assessed value you can see what impact it has on the high value homes, what impact it has on the low value homes. You know, I spent a lot of time dealing, playing with this, and my judgment was this 225, 250, 275 with the 275 rate, struck the best balance between those goals. You know I hope, and I trust the Council will deal with this over the ensuing months like anything we bring here. I don't think it'll turn out exactly the way I think it should be. But I think we hopefully could all agree that some relief is warranted in the homestead class and that it's a very important goal to have fairness, to have each person in each class treated the same.

Mr. Chang: See, and when you say...

Ms. Yukimura: Go ahead.

Mr. Chang: When you say – exactly the way it's going to be, it just kind of confuses me because on one end somebody says we have this much money, on the other end you say we have this much money, we're waiting for the much anticipated CAFR for, you know in a few days or a few weeks. Shouldn't we be waiting for the Auditor, our independent Auditor to let us know where we stand, I mean where are we financially? Because it seems as though a lot of people think we have a lot of money, but is that reality, that we have a lot of money?

Mr. Bynum: It's reality that we have a large surplus right now. That doesn't mean we should go out and decrease revenues dramatically or right? Because we, you know, we already have that happening with the economy. But we have a lot of options about how to address concerns. Even if the dreaded TAT fear that we've all had for three of four years, even if the legislature acts irresponsibly and takes that away, that would be a challenge for us. But it's not one we cannot overcome because we have a lot of options. So, in terms of waiting for the CAFR, it should've been here two days ago or at least the draft. But, whatever it says this year is not going to change these factors. If we don't do anything, the things that I've shown will, if we just leave status quo like we have the last few years, the homestead class will continue to pay more and the other classes will continue to get more of a break. And so, waiting has not been a good strategy.

Ms. Yukimura: And the huge disparity is between like properties...

Mr. Bynum: Well in some instances it'll go down because those people have...

Ms. Yukimura: Because of the assessments coming in low.

Mr. Bynum: Their assessments are...and it is narrowing the gap. That's why 225 or 200 around there will, will, will close that gap when in 2008 it took $300,000.00. It took a much bigger kind of change. Does that make sense?

Mr. Chang: Yes.

Mr. Bynum: Because that...

Mr. Chang: Can I continue?

Ms. Yukimura: You may. And so, if we let Councilmember Chang and then after that Councilmember Nakamura.

Mr. Chang: Okay. I didn't want to bring up the dreaded TAT tax, but, let's bring up the dreaded TAT tax. You know, the financial impact that you mentioned, $5.4, $12 million on the relief, property taxes are probably less revenue for the County, so that's another $6 million, $8 million, somewhere in around that neighborhood, I might be wrong. But if they were to take a part of any other TAT tax, how do we make up for the refunds, if you will, at 495 a homeowner times 12,600 or what have you...

Mr. Bynum: I just said...

Mr. Chang: Alright hold up, yes, and then the property assessments go down, that's less money and...I personally don't believe that the TAT tax is something that we can rely on, and I don't think in the state of the State, you know, at any given time something can happen. And I don't think that they feel obligated that they need to give us, I know that that's been our argument. But, you know, if we lose that kind of a revenue...You know, when you made your presentation, and I appreciate the presentation, but we're talking 2,000, 8, 9, 10, let's say for 12 years, 12 years...I beg your pardon, the last three years. But the story, or the history goes back to 2002 and what have you. So, there's a lot of history within the, you know, you want to talk about the past three years – 2008. 2008 was a big huge different story. I mean, if I'm not mistaken 2007 might have been the best we did hotel wise and in 2008 that's when everything started to go crash. And that was three short years ago which three short years ago the story might have been totally different. Three short years from now, let's say 2014 or 2015, that can put us in a bad situation in which case – how do we make up for the losses or the potential continuation of losses year after year after year? That's just kind of like what, where I'm coming from right now. And I think, you know, in a few days or a few weeks maybe our Auditor will tell us otherwise as to what exactly we do have is our bottom line as far as our surplus or reserves are. That's kind of just what I'm thinking out loudly. Because I don't want to send a wrong message to our legislators and to the State and the other lawmakers like – wow, Kaua'i, they get um. You know what I mean? They got a lot of money, they got surplus, they can do this, that, that and that, and when we need, what we need and what the support of our Senator and our Legislators, they're going to look at us and say – why you guys need our help, you guys get plenty money. That's what I'm afraid of. And I didn't want to lead into that TAT but I can tell you something, that's one of the most vulnerable things that we have right now as far as what we need back for this community.

Mr. Bynum: So you asked a lot of questions, I'll try to do three. One is, in the last three years we lost $24 million in revenue and nobody blinked. We lost $24 million. We should, in my opinion, have been addressing the rates not so people paid higher taxes, so we just didn't lose as much right? How are we going to deal with it in the future? With this leadership and this Council now that we have, with the leadership of the Chair, and as long as I'm Finance Chair, we're going to take a serious analysis of these issues each year. That's why the Charter requires us to change rates every year. That's why our tax ordinance tells us – do this discussion that we're having right now every year. But, this, you know, this business taxes have been trending down, while homeowner's taxes trended up. All I'm saying is let's get that back in line and then we will deal with each year as it comes right? You know, get back in line and then let's manage our property tax system appropriately. In terms of TAT, that's a Transient Accommodation Tax. We host visitors, you know, we've all seen this. Our population is 67,000 but our de facto population is 87,000 because 20,000 visitors are here any day. We have the highest percentage resident to visitors in the State. Obviously the visitors impact County systems. They go to our beaches, our parks, they drive on our roads, we use Fire Rescue for them, probably more than residents. TAT is the visitors paying, you know, for part of that. It doesn't come from the hotels, it comes from the visitors right? And they're paying for that recognition that they impact our services. We are entitled to that. If the State takes it away from us, they're saying to the residents of Kaua'i – you know all those visitors you host that use your lifeguards and roads and stuff, they're going to pay zero, you guys are going to pay for all of that, you residents, you 60,000 residents. I've said from the beginning that we, my opinion, we need to aggressively educate our legislators and the public of why we are entitled to that TAT. In the first year, we really did that aggressively. The Mayors did that, we all did that. We said – don't touch our TAT, and they didn't. The second year, they said – hey we're only going to cap it. In my opinion the Counties kind of went – well okay, cap it because at least you're not taking it all. I think we should've have the same aggressive response and say – wait a minute, we're entitled to that, we host visitors here, they impact our services. We shouldn't expect the 67,000 people on Kaua'i to pay that load.

Chair Furfaro: Excuse me Councilmember...

Mr. Bynum: Um excuse me...

Ms. Yukimura: Yes.

Chair Furfaro: I'd like to ask a question.

Ms. Yukimura: Point of order?

Chair Furfaro: Point of order.

Ms. Yukimura: Okay.

Chair Furfaro: As I would like to remind us of the agenda item right now. I know it's a very passionate item coming up on the TAT.

Ms. Yukimura: Right.

Chair Furfaro: But, that can be a separate discussion.

Ms. Yukimura: Well in fact, Councilmember Chang asked the question about TAT as related to how it would be, how our efforts in the legislature would be affected by our budgetary decisions. So, finish up your answer to that question and then I think there was a third question.

Mr. Bynum: Right. I'll just say this briefly. TAT this year was roughly $13 million, if we lost it it would be really difficult for us, no question. We'd have to reassess and figure out we're going to deal with that. But in three years, we lost $24 million in revenue from these other classes and why weren't we having that discussion then? I mean we deal with the reality we deal, but you know, we shouldn't allow trending down for business and out-of-state resident's taxes while our local people are paying more. All I'm saying is let's readjust that, get back on an even keel, and then we will deal with it going forward.

Ms. Yukimura: Can you go to your third question? The third...or if you remember it.

Mr. Chang: Vice Chair, you know what, I understand what he's saying, so I'm going to yield the floor and when we come back to discussion. But I would like to get, I know some people have been waiting to do testimony.

Ms. Yukimura: Yes. Yes.

Mr. Chang: And I'd really want them to be able to have an opportunity to do testimony, and so I'm...

Ms. Yukimura: Okay, thank you very much. Councilmember Nakamura had a question.

Ms. Nakamura: I have a question Councilmember Bynum. Do you know what the median homestead annual tax is?

Mr. Bynum: Median or medium?

Ms. Nakamura: Median.

Mr. Bynum: I do, because last night at like midnight I was...you can use that spreadsheet to do it. It's, the average is, I put it on a slide is 475, the median is 426. And the way I did that...

Ms. Nakamura: $426.00?

Mr. Bynum: Yes. The median...

Ms. Nakamura: Tax.

Mr. Bynum: Oh wait wait wait. I'm sorry. That's the median tax...

Ms. Nakamura: In the homestead class?

Mr. Bynum: Of the proposal that I'm putting.

Ms. Nakamura: No, current. The current.

Mr. Bynum: Then I don't know.

Ms. Nakamura: Okay.

Mr. Bynum: Yes. I did calculate the...

Ms. Nakamura: I would like to pose that question to the Department of Finance if we could get that information. It would be helpful.

Mr. Bynum: What's the median? Median...

Ms. Yukimura: Well, they may have it now, we will have them come forward in a minute if that's okay? Did you have other questions Councilmember Nakamura?

Ms. Nakamura: Yes. With your concern about the inequities of the 2% cap program, in your proposed bill, you're not seeking to eliminate it are you?

Mr. Bynum: No.

Ms. Nakamura: And, because this inequity that...argument that you're making, why is that not, why are you not making that?

Mr. Bynum: Well I'm just going to give an honest answer. For a year and a half or more, I've been trying to convince the Mayor to give us a proposal similar to what was here in 2008 that would eliminate the cap.

Ms. Nakamura: Okay.

Mr. Bynum: He was adamant that he wasn't going to do that and I believe in compromise. That coming to a conclusion is a compromise right? And so I said – okay, I will support, even though your tax proposal doesn't have all the elements I would prefer, it overall it's worthy and worthwhile and so I'm going to support it.

Ms. Nakamura: Okay.

Mr. Bynum: But, the rest of that answer is, and I also came to the realization that if we manage our property tax system going forward well, the cap doesn't have to create those situations. It didn't at the beginning. I believe Councilmember Furfaro intended it to be an interim measure, that's what he said in the bill he proposed. I haven't asked him that recently, but that's what it says in the narrative of the bill. So we can with this proposal, or something similar, bring it to where there's very little inequity and then if we manage this system going forward we won't have these big things grow. So, my personal preference would be eliminate the cap. Politically, people are afraid, fear, that they'll lose something right?

Ms. Nakamura: I have another question.

Ms. Yukimura: Go ahead.

Ms. Nakamura: Bill No. 2408 talks about increasing the exemption amount to $68,000.00 which seems, I guess I'm not clear about your presentation just now and what's in this bill that's before us.

Mr. Bynum: Okay. I've been very anxious for us to have this discussion. You know, it's on the public record that at the last two budget hearings I've really pressed for us to spend time discussing revenues and it didn't occur, okay? And so, when we went into this tax year, again, not addressing these trends that are happening, I said – I want tax relief as soon as possible. So Bill No. 2408, I put it in as a place keeper. Let's do with 20,000 and then have this dialog and see what we want to change. But initially, Bill No. 2408 was intended for this Fiscal Year, to say here because, and it gets technical here and Steve can explain this. Under our current ordinance, the way it's written, you have the capped people here and you have the uncapped people here. If we just change the homeowners exemption, it lowers the low people already have a low cap and these people. It happens in conjunction. So I put a small amount in to say, let's give everybody $70.00 or $80.00 of tax relief this year while we change that. So this is the crux of the technical problem. I'm not suggesting that we take people that are currently paying low capped taxes and lower them even further. I'm saying let's look at the whole class and recalculate it based on these new exemptions, right, and the people...and that's going to require, and maybe we'll have Steve here to explain it, that's going to require changing more than just homeowners exemption, but the way that homeowners exemption is calculated. I know it's complicated...

Ms. Nakamura: So this is very preliminary then, this bill? There's a lot of work that needs to go into it?

Mr. Bynum: No. Well what I'm going to say today is the, because we need to change the tax calculations we probably need a different bill right? But the initial reason I put this bill on was to try to offer short, I said that at the beginning of this conversation, that I wanted to do it for this Fiscal Year and it was like too late. I had hoped to amend it to do what I'm proposing now, but I believe that it's going to require either one new bill or two bills.

Ms. Nakamura: So then is your recommendation today to receive it?

Mr. Bynum: I have mixed feelings because of what the Tax Department has said about their difficulty of recalculating taxes. I don't, personally I have difficulty with that because we have a spreadsheet that Mr. Hunt made that will do any calculation we need right there. A simple Excel spreadsheet with a talented Excel person can do those calculations. But what they're telling me and you know, what the tax vendor is saying is it would take them months to redo our tax calcs software which is an unacceptable answer to me. It's like, you know, in this day and age you can't reprogram your software, it takes months to do what an Excel spreadsheet will do?

Ms. Nakamura: You don't know whether to receive it, or whether you're going to amend it?

Mr. Bynum: I was...because it's possible you could use this bill to reduce the homeowners exemption and then have a separate bill to change the language about the calculation. I actually have that question out to the County Attorney right now and I haven't received an answer. I have a meeting on Friday with our staff and the County Attorney and so either defer pending the outcome of that response, which would be my preference, or receive. But if we receive, it means a new bill which our staff and with help from the County Attorney and input from the Administration are working on, but that takes time. They're worried about time, even though we're talking about next Fiscal Year.

Ms. Yukimura: Alright, so if I may interfere here, the...I think what Councilmember Bynum has been looking for is the proper vehicle for some of the, to put together a rather comprehensive approach and in my opinion let's keep everything alive until we see what we need and what we don't need. I think Councilmember Kuali'i has questions? Go ahead.

Mr. Kuali'i: Thank you Vice Chair. Thank you again Councilmember Bynum for the work that you've done. I will go back to my point about the seven categories versus the homestead category and most of your statistics not really being a good comparison because of apples and apples. But, with this spreadsheet that you've provided there...the intent was to, what you're trying to do is bring the new PHU count as down to zero because the cap is responsible for the inequities because when the house sells, the new rate is higher. So you've eliminated, removed from the PHU 7,590 with these numbers?

Mr. Bynum: Yes.

Mr. Kuali'i: So, I mean, clearly when Councilmember Nakamura asked a question, that was my big question. If the problem is the cap then why isn't the proposal to eliminate the cap and replace it with the right numbers, careful analysis of what these exemptions should be. And I think the exemptions are more about programs, so they're like special items made available to different categories for special reasons. Now there is a 48,000 exemption given to everyone, but you know, that is a small amount and it just goes to everyone. And then on top of that the seniors have twice as much, the 96,000, and then the super seniors who are over 70 get 120,000. When you look at the differences, that's like 48, double to 96, and then 2.5 times 220. Your numbers of 225, 250, and 275, is this huge amount that's going to everyone so it's like you're just throwing it all out there as opposed to targeting the relief to the people who need it the most. And even the relief that goes to seniors it says – the multiple home exemption was established to lighten the tax burden for senior citizens who have relatively fixed retirement incomes. So yes, the concern about rich old people who live in mansions with the new way of having people file their gross income instead of net income in showing their assets and everything, that'll all be fixed...addressed. So now, the County potentially stands to lose a lot of revenue and in a year like the last couple of years where there was surpluses it might be okay, but to put it now into a new system in the next three years or five years or ten years, potentially it could devastate this County's revenue streams and then we wouldn't have the revenues to provide the basic services that we have to provide. Just because Kaua'i County is doing better than Hawai'i County right now that doesn't mean we should just totally, you know, let go the potential for the needed revenues we might need five years from now or whatever. But, those numbers I think, the fair comparison of those numbers would be to show the spreadsheet with your numbers and then show the spreadsheet with the existing numbers, then we can put them side-by-side. Then the question is, so I know what you're trying to get to and it's providing relief, but instead of just blanketing it and throwing it out there to anyone and everyone I think it should be targeted. And I think that's why we have even the low income exemption, the $55,000.00 additional exemption for people with income of $40,000.00 or less, how does that play into this spreadsheet? Is it accounted for or are we just talking about the homestead?

Ms. Yukimura: Okay, so are you going to ask your question?

Mr. Kuali'i: Yes. But if all those people are being added to the minimum tax, the 1,300 people just based on the homestead some of them are already getting the relief and getting probably to minimum also with that 55,000 for the low income. So is it all part of this analysis?

Mr. Bynum: Well, the short answer is yes. A lot of those minimum tax in, this spreadsheet is pretty cool because it already takes into account the people who have other credits right? So some of them are getting minimum tax because it's a homeowners exemption plus they're low income credit that brings them to that level. In terms of all over the Country there's homeowners exemptions, it's a very common tool to recognize that resident homeowners should and I think most municipalities agree with this and have, pay a lower rate than say business. So yes it takes that, those other credits are in a counter in this spreadsheet. In terms of your point about apples and apples, I don't understand that comment. I've listened to it twice because these, I didn't, these are actual data that we can get from...and nothing can change the fact that those seven categories that are in assessed value have had $24 million worth of relief...

Mr. Kuali'i: Right.

Mr. Bynum: And the homestead class which is in a different category...Now, your thing about targeted relief, I didn't know that we would get into this but because I said these matters are complex. But, I said earlier my preference would be the 2008 proposal which is still before us right? It's still in Council because it was highly targeted. It had a provision that, and this was the 2004 proposal and the 2008 proposal, the hallmark part of their proposal was taxing land very low and taxing building high at a 3 to 1 ratio. Now what that does, I think it's great. The Mayor didn't want to go there, you know, the...but what that does is highly target the relief. With that, people that had high end homes would actually pay somewhat of an increase, a marginal increase right? And all of the relief is targeted at the middle and low income. It's very progressive and I thought it was a wonderful proposal and...but, we have the proposal the Mayor gave us and he wants a flat rate. And if you have a flat rate, the only mechanism that I'm aware of that kind of targets the relief at more modest and middle income homes is the homeowners exemption. Now there's other ways to target, but first of all I want to say is, I believe that everyone in the homestead class deserves a tax break. They've paid more whether they're wealthy or poor or middle income, they've all paid increases while other people have paid less, and there should be relief for everyone. I would be happy to have it more targeted but if we just do, say, and I believe we will have a proposal today to increase the low income exemption, and I think that's great and I'll support it. It does have some revenue impact but not a huge amount. We don't know exactly what it will be because we don't know how many people will apply. Targeted relief is fine, right, and it's good, but it's not going to deal with this inequity unless we...and, unless we can somehow narrow this. Now the other way to do that is what they proposed in 2008. Let's do 35% tax relief for the homestead class, put in this progressive thing where larger homes pay a higher rate than smaller homes, or higher amount because their value is more in the building. So let me say something about that 3 to 1. Imagine you have a home in Ha'ena that has land that's worth $1 million...$2 million but the home is a modest plantation home. If you tax the land low then people can stay in their home and you tax the building higher but it has a modest home they'll pay modest taxes. You have the next door neighbor that has land valued very high but has a mansion, most of the assessment is on the building not the land and so they pay higher taxes. I thought that was a great proposal but that's not what's before us, that's not what we're doing. They didn't want to eliminate the cap which I would prefer because then we deal with the inequity. We use the same proposal right, and eliminate the cap those 1,383 people, I mean I'm sorry, 1,143 people that are doing better under the current would have a tax increase. And the revenue impact would be less. I don't know if anybody is tracking this, but there's a lot of ways to "skin a cat" but they all have different implications. I don't know where that...

Mr. Kuali'i: Yes, I just wanted to be clear that apples and apples has to do with the seven other tax categories have their market assessment and so the reason...the numbers are what they are. The dollars are less...

Ms. Yukimura: Okay, Councilmember Kuali'i we're not going to get into a debate right now.

Mr. Kuali'i: I'm not debating, but he questioned, he said he didn't understand it.

Mr. Bynum: I am trying to understand it.

Mr. Kuali'i: I wanted to just answer quickly, briefly.

Ms. Yukimura: Okay, alright. Then we will, after this discussion and we'll finish your discussion. We do have a certificate. Okay.

Mr. Kuali'i: The seven categories are where they are because of the assessed market rates. The homestead category is where it is because we didn't use the market rates and we used the cap. So it really comes back again to, it's the cap. The cap causing inequities, now you're trying to fix those inequities and you're trying to do it with huge homeowner exemptions and I just don't agree with that. I think you said everyone deserves a break and that's true, and I think every year when we go through our budget cycle and we deal with our expenses and our revenue, we as a Council have the responsibility to determine what those rates are and we should only set those rates to collect the revenues only what we need for our budget, not anymore than that. And so, we should be focusing on the rates as opposed to the exemptions. I think the exemptions are how they are for different reasons and we can revisit them. The numbers can change but there's still philosophies behind why the different ones are what they are; the low income exemption, the fixed income senior exemption, those type of things. But I think we have a lot more analysis to do, I appreciate all the work that you've done, I look forward to working with you a lot further in the next coming weeks on the ordinance and what have you. Thank you so much.

Mr. Bynum: I'd like to just respond because now I understand exactly what you're saying. And I'll just respectfully disagree. If you, you can put that in there right now, you can put in the rate that will address those concerns and it will focus much more of the relief on the high end. It won't create fewer minimum tax but it will put the relief much more on the high end. It's that homeowners exemption is the only thing left that makes this, that is progressive or focuses the relief on low and middle income.

Ms. Yukimura: I think Councilmember Kuali'i is presuming that you would remove the cap and then just do the rates is what I'm hearing.

Mr. Kuali'i: Yes.

Ms. Yukimura: So it's that combination that he's talking about. But I'm going to ask that we end the discussion right now so that we can suspend the rules and have a certificate presentation.

Chair Furfaro: Thank you.

Ms. Yukimura: With that I'll turn it back to Chair Furfaro.

Chair Furfaro: Yes, thank you...

Ms. Yukimura: I mean Chair...

Chair Furfaro: Yes?

Ms. Yukimura: I was wrong, I need to recess the Committee and then give it to you.

Chair Furfaro: Go right ahead.

There being no objections the meeting recessed at 2:37 p.m., reconvened at 3:14 p.m., and proceeded as follows:

Ms. Yukimura: Alright, Finance / Parks & Recreation / Public Works Programs Committee is now back in session. We had Mr. Bynum's...Councilmember Bynum's presentation. Looks like everybody from the public left except our fearless members of the Finance Department. And so, if there are no objections, I will suspend the rules and ask our Finance Director and I guess it'll be Mr. Hunt at this point.

There being no objections, the rules were suspended.

WALLY REZENTES, JR., DIRECTOR OF FINANCE: Yes, Wally Rezentes, Jr., Director of Finance, for the record. I'll be doing, I guess, the first part. Our intent today is just to provide information to the Council on some history on what we've done with Bill No. 2416, Bills No. 2416 as well as Bill No. 2417, and provide some background information and some rationale as to what the Administration's position, what it has been on the bills and what looking forward what we would likely intend to do, what position we will take on various items. Couple of things I just wanted to put a little bit of perspective on...doing some quick calculations, today in the homestead class, if you compare Kaua'i County by all the other counties, the average tax paid by the four counties: City and County of Honolulu, Maui, Hawai'i, and Kaua'i County, is $1,000.00. Kaua'i is at $967.00, so present day. And the range is high in the City and County of Honolulu, average taxes paid is $1,677.00, and Hawai'i County is $777.00. So, we are right now at this point $33.00 below the average paid for the homestead class and relative classes in the other counties. As far as the effective rate, the effective tax rate for the homestead class and relative class to our sister counties, the average effective tax rate is $2.355 per thousand for all the counties on average combined and Kaua'i County presently if you...our effective tax rate considering land and building is $2.16. So, Kaua'i again is below the average of the four counties combined. And, coincidentally...since Lisa Ledesma is a friend of mine, we called her and interrupted her during her lunch break just to, because I know Lisa for a number of years and I know that she's well respected in the mortgage community, and my question to her was based on the average reduction that Councilmember Bynum had mentioned, the $495.00 in his proposal, what would that mean in mortgage terms in how much that $495.00 would buy as far as buying power in the mortgage. If you look at $495.00 that's $41.25 a month if you...today's rates, 30 year rate at 4.25%, it will buy you $8,440.00 in buying power. So that $495.00 reduction will create a additional buying power for a member of Kaua'i's community by $8,440.00. In the past life I did a few mortgages in my time as well and so has Sally for a lot longer than I have, and one of the biggest hurdles or issues, and I think Lisa will corroborate that is in the home buying process, is other loans and other debt outstanding in Hawai'i for the most part, it's the auto loans that really affect the person's ability to qualify and afford a mortgage as well as credit card debt. Historically that's been the reason, one of the main reasons why homeowners have a difficult time qualifying for mortgages.

We're going to start our presentation. And by the way if Lisa's watching this, just want to send some give her some luck because I know she's running in the Honolulu Marathon in about four days with my wife and Steve's wife. But she might be a little bit ahead of my wife at least. Anyway...

The Administration's proposed, what we proposed as tax relief and reform measures that we thank the Council in approving, Bill No. 2416 which is now Ordinance No. 915, as well as Bill No. 2417. The intent, and it was focused on a targeted relief package to those that needed the benefits due to low income. As you recall we had changed the dynamics of that program, I think it was mentioned earlier here today, and we believe that that targeted relief is appropriate. We also understand that in Bill No. 2417 there is a additional low income exemption that's being considered of $120,000.00 that we're supportive of as well. We also are in favor of providing affordable long-term rental incentives and that is part of Bill No. 2417 that the Council is reviewing or looking to approve as we speak. In Bill No. 2417 we also have tax classes that will be based on actual use and not zone, so that will come up again in Bill No. 2417. We had requested a consideration for a single rate structure like our sister counties. The Administration's proposal as stated earlier does not eliminate the PHU cap and the intent is for the cap to continue to protect homeowner class. The amendment that was made changes the...how the cap will change on an annual basis and now we're going to move towards Honolulu CPIU versus just a flat 2%. Bill No. 2417 also includes provision to create a vacation rental class and to appropriately classify those that use their apartments or other types of improved property appropriately. We also look at a fair tax base for all classes across the board and will continue to review tax classes and rates as we continue. Recommend tax rates based on all the information that's available and we obviously prefer that we look at class...we look at taxes after we certify the assessment rolls annually.

We are very much supportive of changing the timeline of when critical dates in the budget year occur and we will definitely work with the County Council to address those changes whether it be an ordinance type of approval that would be required or Charter changes that will be required. It'll take some time but we're making some movement already in that direction so that the decision making process during the budget period is expanded so more time and effort can be spent in budget analysis. We also recommend that we review and consider the results of the upcoming 2011 Comprehensive Annual Financial Report (CAFR) which I understand the Council's Auditors are just about complete and I believe in a week or so, as early as a week or so the County Council will be meeting with the Auditors and reviewing the report with them here. So I think that information will also be important when the Council deliberates any changes to tax rates, the tax code, etc.

We also noticed, and I think Steve will go into further, we wanted to provide a picture of the tax benefits derived from the homestead class over the entire span of the PHU program – 2004 to 2011, and not just the window of 2008 to 2011. I think that will paint a truer picture of the benefits that residents derive from the PHU program over that term. We also wanted to say that no tax payer under the current PHU program has had an increase in taxes of more than 6.12% over that three year period unless there were specific modifications done to their base value. It could be such things as losing an exemption or credit for whatever reason, sale of the property, or change in class of that property, or new constructions on that property or additions to their home.

We believe that the... until the assessments are completed and applications for exemptions and credits are received by the Real Property Assessment Division, it's very difficult to forecast what the revenues will be so again, there's going to be a time... a specific time when the data is gathered and we're able to accurately calculate the exemptions and credits for every given Fiscal Year. We are at this time, and I believe Councilmember Bynum had mentioned, we are verifying with our vendor for our Real Property software system on delivery timing if reprogramming of our system would be required for the upcoming Fiscal Year or 2012 tax year.

I'll let Steve take the rest of the presentation.

STEVEN HUNT, REAL PROPERTY TAX ASSESSOR: For the record, Steve Hunt, Real Property Assessment.

Before I show the evaluation by classes, I just want to explain that property taxes and tax valuations are done on an ad valorem method which is: value. Any relief that is given off value is considered a concession. So, in going through these I've really looked first at gross values because that is again the basis of value before we consider any net values or any kind of relief.

So with that going forward, this first snapshot is a picture of value by class. The top line in pink represents the homestead class, it was the highest class in terms of the percentage of value to our base on Kaua'i. Beginning in 2002 and up through about 2009 where it crossed over with the single-family class. At its peak around 2008, the homestead class represented about 29% of the overall value. Actually in 2007 it was even higher but that wasn't the peak of the entire base. I'm using the entire base as sort of a point of reference which was 2008.

Ms. Yukimura: Excuse me Steve. You know, it's been pointed out to me that our discussion is actually ranging into Bill No. 2417 as well as Bill No. 2408, which to me is fine because they're all connected. So, if it's possible, I'd like to just have this...us take up both bills at the same time so that we can talk in this comprehensive mode, which we've kind of been doing anyway, but just to officially do that. Okay? Go ahead.

Mr. Hunt: Thank you. Okay, so, looking at the progressing in values obviously beginning in about 2008 was when we started seeing the decline in values. Prior to that from 2002 up to 2007 and 2008, for some categories we had this run up in value. This is just a picture by class what that percentage represents or what the magnitude of that class represents.

Now getting back to ad valorem taxes, this graph represents a baseline, zero being baseline. What it's done in each of the years from 2002 to 2011, look at the property taxes as an entire collection and looking at dividing through by value to come up with a unified rate for all categories.

Ms. Yukimura: Hold on a second because I want us to hear what you're saying. We're just having a procedural discussion here. What we're going to do is just have the Clerk's Office read Bill No. 2417, just read that as an item.

Mr. Hunt: Okay.

Ms. Yukimura: And maybe for discussion purposes have a motion to approve, and then we'll discuss and we can still defer if we have to or whatever. So, I'm going to come back into session, please sit there and have the Clerk please read the second bill on the agenda.

There being no objections, the meeting was called back to order.

CR-FPP 2011-16: on Bill No. 2417 A BILL FOR AN ORDINANCE AMENDING CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS AMENDED, RELATING TO REAL PROPERTY TAX *(For the Tax Year 2013)* **[Approved as amended.]**

Ms. Yukimura: Chair will entertain a motion to approve for discussion.

Councilmember Nakamura moved to approve Bill No. 2417, seconded by Councilmember Kuali'i.

Ms. Yukimura: Moved and seconded, thank you everyone. Now I'm going to suspend the rules and Steve can you go back a couple of slides?

There being no objections, the rules were suspended.

Mr. Hunt: Absolutely.

Ms. Yukimura: I'm sorry for the dislocation.

Mr. Hunt: I think we were still on the same slide, I was a little long winded so I'll try to wrap it up. In this slide again just to give you an idea, what I've done is really look at the ad valorem system which is again not giving any preference to class in terms of tax rate. Just looking at what they actually paid relative to what they should have paid on a single value. For instance in the year 2002 I used a single rate value of $5.54. Going forward it changed to $5.60, $5.05, dropped down to a low of $4.14 in 2007 and is now at $4.49. That represents to generate from the gross assessed value the same amount of revenue we received in each of those years from our property taxes.

Ms. Yukimura: Do we have a copy of your PowerPoint?

Mr. Hunt: Just what I have here, I don't think I have a printed one.

Ms. Yukimura: Okay. Our staff has it, I think Councilmembers like to have a hardcopy, but please proceed.

Mr. Hunt: Okay. Again this represents...the zero line represents baseline and if you were to think of it in terms of who overpaid, who underpaid based purely on value, the categories below the line represent subsidies, and above the line represent paying more than their fair share; again, just purely on value. Had all of these paid the $5.54 in 2002, they all would've been at zero. Obviously the greatest subsidies went to the category of the homestead class which received the benefits of exemptions, lower tax rates, and also the inception of the cap beginning in 2004. So I'm just giving some sort of historical perspective as to what kind of benefits were received by the homestead class. Now if you look beginning 2007 you can see that trending up. I believe Councilmember Bynum's 2008 year through 2011 begins to show that upswing where they're getting less subsidy or less credits, in this case from the PHU program despite the fact values have been declining. The corresponding numbers on the top above the zero line for the...in this case six remaining classes, the single family is still below that line because of the lower rate. But the ones that are above that line, you can see them trending down, paying less, or paying less of the burden because their values have declined. This is specific to the homeowner class and the blue line above represents the tax rate that was established from 2004 through 2011. I believe there's been no change to that rate, and it measures the taxes that would have been paid based on the valuations. The green line below is essentially the offsetting credits. Now, there's two other lines, the yellow which is more flat, that represents 2% annually and the red line is the actual. Now again, some of the causes for that variation between the 2% and the actual is the fact that we have had resets, people that started...the prior owner had a very low basis, the new owner buys in and there's been a reset, that would be one reason. New construction, someone who has done an addition to their home, someone who has lost an exemption maybe had an income exemption that no longer has it. Has a dedication for Ag that they lost sometime during that period. All of those adjustments affect the adjustments to the PHU tax calculation. So the variation essentially is that difference measured in that red line. Here is a snapshot of three different years, 2003 being the pre-PHU cap, 2008 being peak market as a whole for the all tax categories, and then 2011 being current. In 2003 the homestead class represented about 12% of the taxes, in 2008 it represented about 8% of the taxes, and currently it's about 11% of the taxes. Now during that period, obviously those pies, I wish I was able to show the magnitude of the pies as well. The pies were growing because the budget was growing. This is a three year graphical display showing by class between 2003, 2008, and 2011 what was going on to each category's taxes that were actually paid. And again if you look at the very far right column as Councilmember Bynum shows, that trend for the homestead class is going up. The other categories which are tied to value which are still ad valorem are going down for the past three years. But it also gives you an idea of the magnitude of each of the contributions from each of those categories. I'm welcome to take any questions you may have.

Ms. Yukimura: Any questions of Mr. Hunt? Councilmember Bynum.

Mr. Bynum: First of all, you showed the chart with the U-shape in the homestead class.

Ms. Yukimura: Can we pull that back up?

Mr. Hunt: This one?

Mr. Bynum: Yes. Right. That's basically the same chart I showed right? I showed it over a 10 year period, so, you're right I did target most of my discussion on the last three years because that's when this was trending differently. But I did show this U-shape curve and it just really illustrates my point that I thought we had decided as a community that we wanted to lower taxes for the class...that that was a goal. Those factors that you mentioned including the 2% cap when I said that in my presentation were very effective in the first years at lowering the homestead class. And so, I just wanted to say that I showed that chart as well and I just wanted that to come down and then stay down, not start trending back up. The other...you mentioned that we'll probably have an amendment today to increase targeted relief based on low income.

Mr. Hunt: Correct.

Mr. Bynum: Which I think is great. But that doesn't address the inequities in the homestead class under the cap does it?

Mr. Hunt: Well, the inequities that you're referring to are the difference between a capped tax and a market tax, which may or may not be higher depending on when they got in correct?

Mr. Bynum: And the inequities based on some neighborhoods with similar valuation being capped...lowered to begin with. So, there are two major factors there. The reset, when there's home sales, that causes the biggest inequity, agreed?

Mr. Hunt: The reset can...for the past few years my taxes have been declining because mine were tied to market. Anyone else in the homestead I know that haven't made changes have been paying at most over the three years 6.12%. It's a new buyer coming in that is assuming to buy someone's home that was a homestead. There are homes for sale in the single family class so there's no step-up in taxes, if anything there's a reduction in taxes from that when they take a home out of that category and make it a homestead.

Mr. Bynum: Right.

Mr. Hunt: Someone who buys a homestead that had a prior tax very very low, now gets reset with exemptions, with the preferred tax rates, to have a new calculated tax and in many cases there are step-ups when it's a homestead homestead transferral from a home that was owned from 2003 and has had no changes that is correct.

Mr. Bynum: So the one example I showed of a home that's currently on the market asking price $209,000.00, current cap taxes are $371.00 right? Presumably any homes nearby, you know, equal value, that have been capped are at that rate of $371.00. So if the family who buys that comes through our Housing Agency hopefully right, a young family buys that, their taxes will go to $887.00 correct?

Mr. Hunt: I don't know the numbers, I have to look but just using your $225,000.00 exemption if they bought it for $209,000.00 and they're exempt $225,000.00 they go to $25.00.

Mr. Bynum: No I'm saying, right now, without any changes, today, the market taxes on that home is $887.00 not $371.00 right?

Mr. Hunt: Okay.

Mr. Bynum: I showed this chart, maybe you weren't here. But, if the proposal I put out there, those taxes will go down to $159.00. Currently, today, without any changes, they're currently capped at $371.00, the new owner will come in and the market taxes are $887.00.

Mr. Hunt: I'll have to take your word because I don't know the distribution of land and obviously there's a building tax and a land tax and an exemption amount and all that other stuff that needs to calculate the final tax. So it's hard for me to say "yes" but I'll take your word.

Mr. Bynum: Well I got the data from our tax website.

Mr. Hunt: Okay.

Mr. Bynum: So I'm assuming...presuming that's...assuming that's true. Has the Administration proposed anything that would change that $887.00 reset for this new buyer?

Mr. Hunt: Well, to be honest I don't know if we're talking the same in terms...if your idea is just the exemption, no we're not proposing any blanket across the board exemption change. We are looking at targeted which I think agreeing is the right way to do it is by income. In terms of what you would deem to be progressive, no I don't think we're meeting your specific needs on being progressive in that nature.

Mr. Bynum: All I'm saying is, this new home...the people in that neighborhood, if they've been capped and stayed put are paying around $371.00.

Mr. Hunt: Right.

Mr. Bynum: New homeowner under current market taxes, not my proposal, forget...throw that out the window, just the way it is today, taxes are going to go to $887.00. So that I see is a very significant change. They're paying $460.00 or $80.00 more than their neighbors. That new owner is paying much higher than the previous owner.

Mr. Hunt: That would be an accurate statement. The problem I find in that though is what we do with the assessment all the time. If you're chasing an outlier, if it was a lucky neighborhood, what you're trying to do is get all the market taxes down to the lucky levels or below so that they're equal. If we were take the one low...all the REO's and all the short sales and say our assessments can't exceed that and forget some of the market sales and we try to be no higher than any of the lower sales, we would be chasing the tail end of this. If the majority fall in a nice bell curve and are paying reasonable taxes, and again I think reasonable based on what I'm seeing other counties is maybe $1,000.00 or below maybe $800.00 to $1,000.00 range annually, that's a reasonable target. But, to give out a sizeable exemption I think, that's not targeted to us. Someone who is elderly and has a $120,000.00 exemption living there and qualifies for income under the proposed $120,000.00, they're going to go to $240,000.00. That's getting close to the exemptions you want and it's a targeted audience for that...targeted tax payer.

Mr. Bynum: Okay, that was a kind of complicated answer. I will agree that I'm trying to lower market taxes near what the current capped taxes are not the luckiest neighborhood though because...

Mr. Hunt: Correct.

Mr. Bynum: Because 1,300 people still would have lower taxes. Those are what I consider the lucky...

Mr. Hunt: The remaining lucky.

Mr. Bynum: That are probably paying too little right now.

Mr. Hunt: I would agree.

Mr. Bynum: But none of that changes that for this new family who moves in.

Mr. Hunt: Right.

Mr. Bynum: And is paying $500.00 more than their next door neighbor.

Mr. Hunt: But you have two tools, if they are not making a lot of money they qualify for low income, they can qualify for that exemption, that's one. Two, you can lower the rate; the rate affects market taxes. If you want to get that market tax closer to the capped tax the rate will do that. The combination of rate and targeted exemption relief based on income can be an effective tool.

Mr. Bynum: It won't address inequity. But, there's no reason for us...we've been debating this for months.

Mr. Hunt: I understand.

Mr. Bynum: It just, hey if I'm that guy and I...my taxes went to $887.00 and my neighbors are paying $340.00 or $350.00, I don't think that's fair. It doesn't matter if I'm low income or not, I'm paying more than my neighbors who may be low income or not. It's about us all being in the same boat right? I may think my taxes are too high but I want to know that it's being calculated the same as everybody else around me. So, yes, I don't want to belabor it but, there's nothing wrong with targeted...and I think that's a great thing. You know my preference would be to have a much more targeted kind of tax system. But, that doesn't deal with the inequities, that doesn't deal with the average middle class family who isn't low income, isn't elderly, who's just trying to get by and watching their taxes go up. And if their kids buy the home they're going to go up even more. That's what I'm saying, for me, and I'm only speaking for myself, if we move forward with a system that leaves those inequities, I'll keep trying the best of my ability to address that. Fairness is very important in taxes.

Mr. Hunt: You're talking fairness within one class. I mean if you're talking inequities, what about the person who doesn't have a home exemption and lives right next door to the two people that do that have different taxes and he's a single family class, and he's paying $2,000.00 as opposed to the $300.00 versus $800.00. I mean you've got three tiers of inequities if you will.

Mr. Bynum: And your proposal is dealing with that as much as we can right?

Mr. Hunt: That's right.

Mr. Bynum: Given the complexities of our tax system.

Mr. Hunt: That's right.

Mr. Bynum: You know, to me...anyway, yes, we can go on and on.

Ms. Yukimura: Yes, let's see if there's clarifications that we can get from Mr. Hunt. Mr. Chang then Councilmember Nakamura.

Mr. Chang: Well I don't necessarily, I'm not asking for clarification, I just had a question.

Ms. Yukimura: Go for it.

Mr. Chang: Thank you. So is it typical for a realtor that's selling a house or a potential homeowner that's out there buying a house, do they...is it typical for them to ask the realtor or ask your office "if I purchase this home, what are my taxes going to be?" Is that a common question to ask?

Mr. Hunt: It's not as common for our office, but it is for the real estate and escrow companies. And when they do provide their HUD statements they do an estimate of taxes. That is something that comes up often and again not all of the properties that are purchased are capped. So, often the taxes are the taxes and some case they're actually lower because it may be an off-island person, non-owner occupant that's selling a house at a higher tax rate, now the new buyer is going to benefit from lower taxes. So you can estimate, and again you're usually estimating from either prior year or what you're going to be because we only do the certification once a year. So it's not exact, but they do change as do your inpounds with your mortgage company when you're borrowing, they'll do adjustments based on changes to those taxes.

Mr. Chang: So I understand. So let's say I'm a potential homebuyer. I got the deal of a century or a fire sale, foreclosure, what have you. So, I'm saving $120,000.00, $60,000.00, $200,000.00, understandably I'm going to pay a little bit more in taxes, but I also know that I scored because I'm paying $150,000.00 less than the house was.

Mr. Hunt: Right. If you bought a house that we have other comparables, let's say it's worth $500,000.00 and you got it for $400,000.00 and you scored $100,000.00 deal on that, you're not going to be assessed at $400,000.00 based on your one sale. We're still going to look at the market sales in that area that were comparable to you to set your value. We're not a Prop13 State, we're not California, your purchase price is not your basis for taxes.

Mr. Chang: So I buy a condo in a neighborhood and I can afford...I bought it for $100,000.00 at cash, I make $100,000.00, I end up at the end of the year paying $25.00?

Mr. Hunt: If your exemption exceeds the $100,000.00 absolutely, yes.

Mr. Chang: Okay, thank you.

Ms. Yukimura: Thank you. Councilmember Nakamura.

Ms. Nakamura: Earlier I asked the question what is the median tax in the homestead class, and I think Wally provided an average.

Mr. Hunt: Yes, and I...

Ms. Nakamura: Are you able to...

Mr. Hunt: I actually had the median, I don't want to misquote it, and Tim can probably do it from the same spreadsheet that I would go back to to figure that out. The reason I didn't do the median for this analysis, was because I couldn't get the median from the other Counties and I wanted to make sure we're comparing average-to-average as opposed to median-to-average. I believe...it's definitely south of our $967.00, I believe it's in the high sevens, low eights, but I don't want to be misquoted.

Ms. Nakamura: Okay. Maybe that would just be a follow-up question for me because I think that is a good guidepost when we're developing tax policy. I also wanted to find out, Councilmember showed different scenarios where homes within different communities on this island were paying different taxes based on when they were purchased. I wanted to get your opinion on whether, and these are anecdotal information based on true scenarios, but I wanted to ask you – do you believe these inequities are widespread on this island?

Mr. Hunt: As the market is correcting itself downward, we're having fewer and fewer inequities. The people who have established, and again your PHU cap is based on when you established your base, when you have filed your home exemption. So when you establish that, if you established it in 2005 or 2006 or later, you've been receiving market taxes and you're not basically in the PHU program anymore, you're not getting any...you're in it, but you're not getting any benefits, there's no credit left. Those people that have remained were based on the 2003 and haven't done any changes and are continuing on, still have much lower taxes than where they would be. But we're getting closer and closer to that 2003 nexus where they crossover. So...

Ms. Nakamura: What percentage of all properties in the homestead class would you say are...

Mr. Hunt: And again, just not to be confusing, there are homestead class and there are people who benefit from PHU which may or may not be in the homestead class, so let me talk about benefiting PHU people because that's really what we've been studying.

Ms. Nakamura: Okay.

Mr. Hunt: There are 12,150 parcels that receive 12,246 exemptions. So some parcels have multiple, they have two dwellings and maybe the son has a partial ownership in the property and lives on the second home and has established his own exemption. So there's various reasons why you would have multiple home exemptions. Of that, there are 8,733 that were benefiting from the PHU program. So percentage wise... so about 60-70%.

Ms. Nakamura: So then the other 30-40% would be the ones that may have maybe paying more than what most are...

Mr. Hunt: They're paying market taxes their taxes every year...and likely for the last three or four years have been lower each year.

Ms. Nakamura: Okay. That's helpful. And, the other half of the equation in my mind is that as homeowners we all receive benefits from the County, whether it's Fire, Police service, our roads are maintained, the parks...and so, I believe that residents receive benefits and should help to contribute fairly for these benefits. So, I'm a little concerned about having too many people pay minimum taxes because I don't think that's a fair thing. I think people should be paying for...but, I believe it should be targeted to those who...I think that's what I'm struggling with is trying to find what is that right balance and I think that's where I would like the discussion to go. Thank you.

Mr. Hunt: Can I comment on that?

Ms. Nakamura: Yes.

Mr. Hunt: And you share our thoughts. One of the major concerns about minimum tax, there are couple dynamics going on right now. One, we know that values are going to be down again this year, how much, we're not sure. It could be 8, 9, 10%, maybe more. But, we know that there's going to be an adjustment to value so that makes vulnerable more than the 1,383 that would be in the home exemption or the minimum tax category based on Tim's analysis of the 11 figures. So we know that there are more that are on the cusp that as values decline those exemptions will kick in. We also don't know the impact of the, I believe there were 1,481 low income applicants last year that got income exemptions which were $55,000.00. Whether that's the current 80 or whether we approve 120 later, we don't know the impact yet of that. That may push more into, of that 1,488 maybe a third of those could go into the, or more, into the minimum tax. So, as you set in stone that exemption amount it knocks people into the minimum tax. Two or three years down the road you want to lower that exemption amount unless the cap has been removed, you cannot recoup the taxes because now they've gotten into $25.00 minimum tax, and they can only go up by the CPI going forward. So you've really constrained the ability to generate revenue from a whole lot of people...potentially. Right now, maybe 1,388 is not that much but when it's 4,000 or 5,000 we've now cut out a big number.

Ms. Nakamura: And I guess the last point was that, I think a major assumption in the discussion so far has been that a parcel that has lower value should have a greater benefit. Maybe the assumption is that that person living in a lower value home does not have the income to pay a higher tax. And, I'm not comfortable with that assumption moving forward. I think it's something to look at and I'd like to see the data that shows who are...who's in these homes, but, I know of elderly people who have very high incomes but live in very small homes. So, that's something that I want to also explore, and if you have any comments on that that would be...

Mr. Hunt: Again, I very much in favor of targeted relief and because a person lives modestly with their home selection, does not necessarily reflect their value, or their net worth, or their income.

Ms. Yukimura: Thank you. Councilmember Kuali'i and then Councilmember Bynum.

Mr. Kuali'i: Aloha and mahalo Steve. Only one question at this time, knowing that we can address these inequities with either increasing the exemptions, creating new exemptions, increasing existing exemptions, and or lowering the rates, can you say a little something about what's involved with implementing both. So for the exemptions, what it would take from the department, how much lead time would you need, can we impact the fiscal year 2012-2013 year if we took action in the next couple months, and then for the tax rates.

Mr. Hunt: Okay. The tax rates and the exemptions can be done immediately and can affect the next fiscal year's budget, not a problem. If you want them to calculate the new exemptions, only the market taxes and not make adjustments to the PHU taxes, that needs quite a bit of lead time. We're told three to four months lead time. What that does is, we...right now, we could make a choice to turn off an exemption and say – you're not going to get the additional age exemption, you're not going to get additional income exemption, we're just not going to make adjustments to the PHU calculation, but all those will be calculated for your market tax. That, I believe, is what under the proposal that Councilmember Bynum made in Bill No. 2408 is was the intent. Bring the market taxes down but don't lower, further lower the PHU taxes; that will take time.

Mr. Kuali'i: Thank you.

Ms. Yukimura: Councilmember Bynum.

Mr. Bynum: I'll start with that.

Mr. Hunt: Okay.

Mr. Bynum: You gave us this nifty spreadsheet that will calculate that right now, today. Any formula we want to put in there.

Mr. Hunt: No, that's not correct. The PHU calculation, the credits, are derived from the system. This was a data dump from a certified roll from 2011. Anytime you make a change to that exemption, those credits will change. There's a long algorithm that calculates if there's been a change to a building, if there's been a change to an exemption, if someone has gained or lost...all these things that are done compares it to market tax, compares the circuit breaker, use to be circuit breaker grandfathering. It does all these things to come up with what is your PHU tax. That's not in the spreadsheet. That I can't program.

Mr. Bynum: And so that, but you can use this spreadsheet to determine what, if we did this, what the taxes for each individual home will be.

Mr. Hunt: What it would've been in 2011.

Mr. Bynum: Would've been in 2011, right.

Mr. Hunt: That's what we're doing. We're going backwards.

Mr. Bynum: Yes. So let me just say that, and if I didn't say this during your presentation, you know that I can only do this analysis based on 2011 data right? And I've said all along, when we get the next year's data, which that rate that meets that target goal of 5.2 or 5.3 may likely be higher right?

Mr. Hunt: Right.

Mr. Bynum: In fact, over the last three years we could have been adjusting rates to keep us from having that much revenue lost in the other classes correct?

Mr. Hunt: Could have been adjusting rates to all categories, absolutely.

Mr. Bynum: Right. And so, I mean, we've been panicked about losing potentially $13 million from the TAT, but in three years we've lost $24 million by not adjusting the rates; by not managing the system correct?

Mr. Hunt: I don't want to speak to the budget end of this because I'm not qualified to make a determination whether $90 million was the correct number to begin with. Yes, we've gone down from there.

Mr. Bynum: Has the Administration proposed any rate changes in the last three or four years?

Mr. Hunt: Not that I'm aware of.

Mr. Bynum: Every time it's come, same-same, right? And so...I just want to make clear that, and I think you know this right, that I recognize that that rate we set next year will be dependent on the data we get next year right? You know, the homeowners exemption doesn't have to change year-to-year. I've discussed it before as a big lever...

Mr. Hunt: It is.

Mr. Bynum: And then you have the little lever. You don't change the big lever often. The other thing I would say is, Maui has had a 300,000 home exemption for quite a while right? And I understand they've lowered it to 200,000.

Mr. Hunt: It has already passed.

Mr. Bynum: Because it's a multiyear trend down, it makes sense to move that big lever after a multiyear trend. And the proposal we had in 2008 was 3, 325, 315 right? And so, I must say that this idea of having a large exemption, it's not a Tim Bynum idea. It was proposed here by the Administration three years ago. Maui has been doing it that way for a long time and they're able to manage these systems. So I had some other questions about the cap.

Mr. Rezentes: If I could just comment a little bit about the exemption amounts, and I think there was a...Wally Rezentes, Jr., Director of Finance again.

Just to...I know throughout today we've done a number of comparisons, some with respect to Maui and their exemption program. Some of the things that Councilmembers need to be aware of when trying to compare Kaua'i County and Maui County is...there's a few critical things that you need to be aware of. I think you had mentioned, Steve had mentioned the reduction from 300,000 to 200,000. I know they were looking at that during the course of last Fiscal Year and they used the same real property vendor that we have. So they could not, my understanding is they wanted to implement the reduction from 300,000 to 200,000 for this current budget cycle. They were not able to do that because of the timing, the length of time it takes to implement. I understand that is one of the reasons. But one of the big differences with us and Maui is that although their exemption is high, they have no PHU program. So, the effects of the exemptions do not have a long term impact with Maui County as it does with us because we have the PHU program still in place. So, their levers, they can go up and down with the analogy with the levers a lot, they're a lot more flexible because of it and that should be noted. Another thing that everyone would understand, Maui County, the average assessment for a homestead class is about 13.5% higher than Kaua'i and that's pretty significant. Another significant difference is that Maui County has a minimum tax of $150.00, Kaua'i County is $25.00. My understanding is they are and have or continue to have discussions on increasing the minimum tax on Maui County from $150.00 to $300.00. That was...that increase was discussed at the Council level within the last year. Maui County, there was an article in the last five months or so that indicated in their homestead class, their homeowner class, one-third of the households pay the minimum tax. So 8,461 homes, households on Maui pay the minimum tax, again at $150.00. So, I just wanted to clarify, although we can look at Maui, we can compare Maui with us to a certain extent, there's definite differences that everyone needs to be aware of when you make that comparison.

Mr. Bynum: And that's why you gave us the effective tax rates right? To control for those variances right?

Mr. Rezentes: Yes. We gave what the rates are by, I believe we gave, I'm not sure...we gave this?

Mr. Hunt: That wasn't in the presentation.

Mr. Bynum: No, because you gave us an average but you didn't tell us what Maui's effective tax rate is.

Mr. Rezentes: Yes. We have it, but we can provide that as well.

Mr. Bynum: Okay. I mean, I can't tell you how thrilled I am that we're actually discussing revenue and property taxes on the Council floor. And so, you know, why didn't you put an increase in the minimum tax into your tax package?

Mr. Rezentes: Because it wasn't part of our package. We didn't consider that at this time. I mean, it's not that we could look at it in the future and if, for example, if I think we'll have to take a much greater look at it if proposals are passed at the Council that would increase maybe ten-fold or twenty-fold the number of people that would have minimum tax as a result of whatever proposal. But right now there's, we don't have that issue. But if there's significant changes that's approved by this body we may need to go and look at that minimum tax at that time.

Mr. Bynum: So Wally, in the last few minutes you've said the cap creates a really difficult tax calculations correct? The cap...

Mr. Rezentes: It takes a lot of work.

Mr. Bynum: Makes the minimum tax have a more onerous potential impact.

Mr. Rezentes: Drastic increases in exemptions would have that effect.

Mr. Bynum: Because we have the cap, that's what you said.

Mr. Rezentes: Right. Drastic, if there was drastic increases in exemptions then that will have obviously a great effect on the number of folks that would pay minimum taxes.

Mr. Bynum: Were you the Finance Director when you proposed 300, 325, 350?

Mr. Rezentes: Yes. And at that time the push was to eliminate the PHU.

Mr. Bynum: Okay. So why are you keeping the PHU in your tax proposal?

Mr. Rezentes: Because it is believed that there are inherent benefits to the tax paying public. The fact that they...the spikes when values change, the spikes are not there as a result of increasing values. So there's basically predictability to a certain extent and I believe that a lot of...although the intent was it to be a shorter term period, a shorter term solution, I think that a lot of the public have become accustomed to the...and see the value in the PHU program. Although it takes time to administer, I believe the public, a large percentage of the public that are in the homestead class value what they get out of the PHU.

Mr. Bynum: I agree. Could we, with ad valorem, if we set the rates every year we could accomplish the same goals without a cap yes?

Mr. Rezentes: What goals? I'm sorry.

Mr. Bynum: If we wanted to keep tax bills the same, if the assessed values went up and we reduce the rates, we could accomplish that right?

Mr. Rezentes: You could adjust that with rate setting.

Mr. Bynum: Right. So...

Mr. Rezentes: You could change...

Mr. Bynum: A good management of the current property tax system would prevent those spikes correct?

Mr. Hunt: Just wanted to comment on that. The way the real estate cycle moves, typically the high end properties lead the market and are the last to fall. Because spikes in the market are not uniform, we'll start to see it in certain areas first. If you're controlling it through exemption and tax rate only, you're going to have to sort of find a median but there are going to be people above it and people below it. You're going to give too much benefit to some to accommodate those that are here, or too little to the ones that are spiking and you'll always be shooting for the median. What the PHU does, is it takes away those spikes in areas regionalized. And like you alluded to early, there were lucky classes and unlucky classes. Those are now set and maybe there's some inequities and we can adjust those with rates and play to get those closer, but the same thing will happen by trying to control it with those two vehicles, you're going to have areas that will spike faster or lag behind the market. It may or may not accomplish the goal of having stabilized or lower tax bills for all, you're still going to have outliers.

Mr. Bynum: Right. You have to have good quality assessments right?

Mr. Hunt: Yes.

Mr. Bynum: That's your primary role in our County right?

Mr. Hunt: Correct. Get the assessments right.

Mr. Bynum: Good quality assessments.

Mr. Hunt: That's right.

Mr. Bynum: Do you agree with the statement I made earlier that our...the quality of our assessments are better now than they were in 2003?

Mr. Hunt: I was not here in 2003 but I will agree with you. I believe there probably are sales assessment ratios are much better now with a very active market which also helps reestablish values in all areas.

Mr. Bynum: As I've met with bankers and mortgage people and real estate agents I've gotten that feedback unsolicited. I didn't say – hey do you think it's better? They say – ho, the County is doing such a better job. So...

Mr. Rezentes: It might not be better it's just more accurate right?

Mr. Bynum: Yes. So...I mean, I would continue...

Ms. Yukimura: I'd like to see if other people have questions. I wanted to recognize Sandy Kato-Klutke who's been here a long time and if she wants to testify then I think we should let her testify now and then call you back. The rules are still suspended.

SANDY KATO-KLUTKE: Good afternoon, I'm Sandy Kato-Klutke. I've been actually here all day.

Ms. Yukimura: Yes.

Ms. Kato-Klutke: On behalf of the Hawai'i Lodging and Tourism Association Kaua'i Chapter as their President. When the agenda came out, we check your agenda every week. When the agenda came out about a tax bill, about Bill No. 2408, it sends out signals to all of us because we are an easy target. And easy target doesn't mean that we're just going to sit back and let you do whatever you want to do with our taxes. In 2008, when ATA when Aloha Airlines went down, we scrambled. Had it not been for HTA and HVCB going out and doing extreme marketing, we would've died. But let me tell you, that money had dwindled to almost nothing. So, for us in the industry from that time till today our property taxes as you say has gone down, it's because our tax assessed values have gone down. I run what is called a "condotel." We've converted 200 hotel rooms to condos. We sold it at that time in 2004 and 2005 at...the oceanfront rent for $325,000.00. I had a whole building of 12 units that went into bankruptcy and we sold those units, the bank sold those units for $125,000.00 if we were lucky. So that's where the money went when you say the taxes have gone down. Well, our economy has not rebounded. My rate that we are now selling, you can check it on the internet, are far below what we were charging in 2008 and it's not going to go any further because 2012 is going to be soft. So when you talk about wanting to raise our property tax, we transfer all of that property taxes to the rates and those rates are what affect you, every one of you that send people to us to stay here on Kaua'i. You're no longer going to have the same kind of rates or the same kind of discount that we used to give you because we can't afford to. Today, I will tell you that 75% of my staff is on-call because our occupancy is so bad. It's not going to get any better till the end of the year, it is not. So Councilman Bynum you say that $819,000.00 is what the tax increase would be if you put your proposal into plan, correct? So is 504 million is what the deficit would be if you took the cap off the homestead. Where are you making up the other four-hundred...$4.7 million? If it's not from the hotels and it's not from the homesteads, where are you getting it from?

Ms. Yukimura: So, generally we don't allow a dialog, I think I'm going to allow you to answer that question though just because we have a fairly empty room here and we are engaged in kind of a workshop format.

Ms. Kato-Klutke: I mean if he doesn't want to answer, that's okay he can come to one of our meetings though and he can answer the questions to the board.

Ms. Yukimura: No. I think it's good to have an answer, so go ahead.

Ms. Kato-Klutke: Okay.

Mr. Bynum: One, I would love to come and talk with your board directly, two, what I said in my presentation is right now I wouldn't propose raising anybody's taxes. For the next couple years I would propose using our very large reserve, but, if you want to make up roughly $5 million in taxes a $0.40 increase to the other seven categories would do that okay. And I showed, if I can show the slide I would. The hotels would still be paying significant, several million dollars less, not several, $2 million less than they did in 2009. The increase next year, year-over-year would be $866,000.00 or whatever that figure was because I'm using that as an example. Currently the rates on Kaua'i are 753 of the land and right because we have the two compared to 985, 910, and 1240...

Ms. Kato-Klutke: But we are not those other islands Councilman Bynum.

Mr. Bynum: I know.

Ms. Kato-Klutke: We are not.

Mr. Bynum: Let me continue.

Ms. Kato-Klutke: Do not compare us to any other island because we struggle the most.

Ms. Yukimura: Okay. Let's let him answer your question.

Ms. Kato-Klutke: Okay.

Mr. Bynum: Next one. This is what I was saying, these are the tax revenues that came from hotel and resort over the last four years. If...if we chose, as a body, to bump up those taxes to give relief to the homestead class, $0.40 increase would be $819,000.00 for the entire industry right on Kaua'i. So that would make the proposal...the taxes $15,766,000.00 which is still considerably less than they were in 2009. So, I'm answering your question...

Ms. Kato-Klutke: But 2009 when we had extreme amount of money for marketing, and we didn't have the foreclosures...

Mr. Bynum: Sandy...

Ms. Kato-Klutke: I mean when we're selling a unit, we're selling a unit on our property for $79,000.00 and the original owner actually purchased it for almost $200,000.00. That's the difference between 2009 and 2011...

Ms. Yukimura: Okay...

Mr. Bynum: May I respond please.

Ms. Yukimura: I think we're getting into a discussion...

Mr. Bynum: I'm just going to respond and then ask a question.

Ms. Yukimura: You can ask a question when she's done with her testimony.

Ms. Kato-Klutke: I take that back, what I just said. I don't need to have an answer.

Mr. Bynum: Sandy, the whole world economy has been struggling. I recognize that the visitor industry is struggling, I recognize that our local small businesses are struggling. I would ask you to recognize that our local working class people who are working in your hotels are struggling, and their taxes have gone up by $3 million, when your taxes went down by $3 million.

Ms. Kato-Klutke: It's not my taxes...

Ms. Yukimura: Okay. I think we're...

Mr. Bynum: Is it okay with you that local...

Ms. Yukimura: Okay Tim, I'm sorry...

Mr. Bynum: People are paying increases? Are you concerned about that?

Ms. Yukimura: Okay, we're not going to have a debate. So, if you would finish your testimony.

Ms. Kato-Klutke: I'm just asking that you not...if you can consider not to increas our taxes for the next two years at least because 2012, we were just predicted that 2012 is going to be worse than 2011. That means my people will not have jobs, your citizens of this island that are struggling today will be struggling even more because we will have to increase...with that kind of increase, we'll still have to increase our rates which would put us out on the market when we compare us to Aruba, or to Mexico, or to any other place.

Ms. Yukimura: Okay, are there any questions of Ms. Kato-Klutke? Councilmember Chang.

Mr. Chang: Thank you very much Vice Chair. I just actually have a question for Councilmember Bynum.

Ms. Yukimura: We're not going to go into it. Debate among ourselves?

Mr. Chang: It's not a debate, I want to ask him if he can clarify. When Ms. Kato-Klutke had asked about an increase, he said it was going to be shared amongst everyone.

Ms. Yukimura: And I will allow that when we get back into a discussion.

Mr. Chang: But it's specifically the visitor hotel industry, is that...

Ms. Yukimura: No no, it's all classes. So let's...

Mr. Chang: But the $0.40.

Ms. Yukimura: It's all classes. So, can we finish with Ms. Kato-Klutke? If you like we'll have a brief discussion before we go back and suspend the rules for the Administration.

Mr. Chang: Okay.

Ms. Yukimura: Okay. So do you have a question?

Mr. Chang: Okay, I'll ask a couple of questions. Sandy first of all thank you for being here. Can you explain to the public how much the hotel industry and how many hoteliers actually put in like in the millions of dollars just to "keep up with the Joneses" during the slow time for renovations, for...

Ms. Kato-Klutke: I don't know how much. I know that the Grand Hyatt just did renovations, I know that the Sheraton Kaua'i just did renovations. We're doing renovations. Everybody is doing renovations, we have to do renovations in order to keep up because everybody watches us on TripAdvisor. TripAdvisor is where people make the determination whether they're coming to us or not. So when people say – oh yes I just went to the Grand Hyatt and they redid their pool and how wonderful it is, that gives us one more step forward that people will be coming. Same thing like my property, I answer every single TripAdvisor, but we have to do renovations. The owners, my owners are not just off-island owners, my owners are also owners that live here on this island, have to do what we ask them to do in order to renovate, and it's not inexpensive.

Mr. Chang: And earlier you mentioned obviously that all these islands are different but a key detriment to Kaua'i if you can explain, is we don't have the airlift, we don't have the runway, we can't land a...

Ms. Kato-Klutke: That's right. We don't have...a lot of the marketing now is going out to Korea and China. We can't get direct flights from Korea and China so they actually have to go to O'ahu and change flights, and that's an additional cost like to all of us. I mean, you fly Hawaiian, you got to...so you fly direct on United but it's still the same, it's still expensive. So, it's difficult, we try our best to make sure that we get our fair share. Right now I know the timeshare is doing better so if we say that we're adding extra flights it's because the timeshare people are coming in; but they're not coming into to the regular hotel rooms.

Mr. Chang: Okay. Thank you Vice Chair.

Ms. Yukimura: (Inaudible)

Mr. Bynum: Thanks for being here today Sandy.

Ms. Kato-Klutke: You're welcome.

Mr. Bynum: As I said I would love to meet with your board.

Ms. Kato-Klutke: Okay.

Mr. Bynum: And I'd love to continue to...but I have one question. Did you hear me say during the presentation that I personally would not be proposing any tax increases in the next couple of years.

Ms. Kato-Klutke: But you know what, the other thing is that as a business person, as a business woman, you want to have a cushion. All of us want to have a savings account for that rainy day, and we've had more than our share of rainy days. If the State decides that they cannot balance their budget and take away your $13 million where are we going to be if you start using that surplus that we have? And as a citizen of Kaua'i that votes here, I suggest that you leave that cushion there because the rainy day is going to come Councilman Bynum. And so, if you start giving people changes in their taxes and it's all great, I'm not a homeowner did you know that?

Mr. Bynum: No.

Ms. Kato-Klutke: I can't afford to buy a home. My son is a homeowner but I am not, I live in his home. But you know, we pay high taxes, but we're not complaining because we know that the taxes are needed to run this County. We love living on this island and we love having all of the stuff that we have. So, it's okay to have to pay...I mean you have to pay something in order to get something back, you cannot get everything for free. And when you put over there how much we pay for the trash pick-up that's not fair because we pay higher rates in our industry to the private trash collecting companies. That's not fair for you to put that there and not put it elsewhere that we all use that as well, it's not fair.

Mr. Bynum: I accept that criticism because you're correct. We increase tipping fees that impacts the private trash collectors.

Ms. Kato-Klutke: Right.

Mr. Bynum: As well...

Ms. Kato-Klutke: You increase our tipping fees tremendously and we have to separate greenwaste from cardboard to glass and we pay for every one of those bins.

Mr. Bynum: I'll just say, I agree with almost everything you've said but in the last three years, it's just a fact, everybody's taxes have gone down except for the people who live and work in their own homes.

Ms. Kato-Klutke: But when you put down our taxes went down it hasn't to do with the fact that we were paying less taxes, it had to do with our taxes as values of our properties that went down.

Ms. Yukimura: (Inaudible) Councilmember Kuali'i has a question.

Mr. Kuali'i: I don't really have a question, I have to leave, but I just wanted to say thank you. You did spend several hours with us today and I'm glad you came up and spoke up on behalf of the Lodging Association, it's very good to hear from your perspective and I take your requests very seriously.

Ms. Kato-Klutke: Thank you.

Mr. Kuali'i: Thank you very much, and I have to leave, Chair.

Ms. Yukimura: Yes. So, we're excusing Councilmember Kuali'i. I think we have one more question from Councilmember Nakamura.

(Mr. Kuali'i was noted excused from the meeting at 4:27 p.m.)

Ms. Nakamura: It's more of a comment, but I just wanted to thank you Sandy for being here and to share your perspective because that's something that really adds to this conversation, thank you.

Ms. Kato-Klutke: Because you know, when you look at Coco Palms is still down, the properties in Po'ipū have not been able to build, up in Princeville area, next door to me in Waipouli area, next door to the Kaua'i Beach Resort, if we raise the taxes even if it's only $0.40, it's going to hurt them even more. And so, we will probably not have more construction going on in the industry. So I want you to consider that as well.

Ms. Yukimura: Thank you. Any further questions? If not, I just want to let you know that actually Councilmember Chang was the one that sent me a note, we have to let Ms. Kato-Klutke speak, Sandy speak. So, he was really thinking of you and we are all thankful that you've come.

Ms. Kato-Klutke: Thank you.

Ms. Yukimura: Thank you. Now, do you want to have a quick discussion as a Council before we go back to the Administration? Do you want to have a quick discussion or shall we finish up with the Administration? It's addressed to you Councilmember Chang.

Mr. Chang: Well, first of all, I need to apologize because throughout the whole course of the day I didn't identify and ask you all but I was not, and I am not a committee member so I appreciate you guys allowing me to have this discussion. As you know you missed two of your, you are missing two of your committee members so I'm not sure...

Mr. Bynum: We have quorum.

Mr. Chang: I know you have a quorum but it's, I'm just...

Ms. Yukimura: I think we want to finish the dialog with the Administration as long as you don't have any quick discussion to do among ourselves right now.

Mr. Chang: I'll wait till you call the meeting back to order.

Ms. Yukimura: Okay, very good. Then why don't we come back and finish up. Can we put their PowerPoint back up on the screen? Okay, I forget where we were but...

Mr. Hunt: We were Q and A.

Ms. Yukimura: Q and A right, okay. Any questions of Mr. Hunt? Councilmember Bynum. Not arguments but questions.

Mr. Bynum: Straight forward question.

Ms. Yukimura: Okay.

Mr. Bynum: If somebody was in the cap program all along and they added an addition to their home, how do you calculate those taxes?

Mr. Hunt: Sure. And this speaks to the modifications I was talking about earlier, the PHU calculations. The PHU program takes the prior year's tax, multiplies it by the allowable increase which had been 2% up until recent what would now be based on the CPIU Honolulu, it determines what that allowable increase is. Then, it looks at any changes to the property (physical characteristics, exemption characteristics, loss of exemptions, loss of ag dedications, loss of a tax class). All these things are considered as adjustments to the PHU tax. So if someone builds a 500 square-foot master bedroom addition, that tax is calculated as a non-PHU capped tax, basically market tax of those improvements, added to the prior cap, and posted on the bottom line to say – your adjusted cap. That is compared to the market tax of the entire property inclusive of the addition to see which is the lower of the two. The lower of the two is chosen and that becomes your tax bill.

Mr. Bynum: So, so a portion of the property is taxed at a new rate and the other portion...

Mr. Hunt: Not a new rate.

Mr. Bynum: I thought you had to go back to 2003 and determine what the value would've been then.

Mr. Hunt: That was under the circuit breaker, thank goodness that's gone, 2001 yes.

Mr. Bynum: Oh okay.

Mr. Hunt: Under this, if there was a change in tax rate, for instance they were in homestead but they built a complete second home and it was zoned single family and now they're no longer pit a homestead they are now a single family class, under that scenario, there's two calculations: (1) the tax is associated with the new building they just built which were not capped, so you add that, and (2) is the adjustment to the tax rate which goes back to their base year and calculates what their capped taxes would have been under the pit one single family in the year of their base and brings that forward as an allowable increase, and then compares that to the market. I will not deny it's a very complicated system.

Mr. Bynum: And that's what I really just wanted to point out, that this system…I mean, your job is difficult enough in the best of days right? And you're going to subject to a lot of second guessing and criticism and that's why one of the reasons I admire your professionalism. But this system along with the time share system has created a situation that is very complex and causes you a lot of work for lack of a better term right.

Mr. Hunt: Yes I would agree with that statement.

Mr. Bynum: I mean the rest of the classes other than timeshare and homestead are a lot easier to manage than these two, correct?

Mr. Hunt: That is true. The one benefit is moving to our market modeling rather than cost has eliminated some of that work because the models are working well, providing accurate values, and we're able to do it at mass levels so that's been one side to relieve some of that work. But we are spending a large percentage of our time dealing with taxes rather than value.

Mr. Bynum: Thanks.

Ms. Yukimura: We have to change the tape (inaudible). Any other questions? I have a question, and I have to apologize, but I would like this chart explained to me.

Mr. Hunt: Sure.

Ms. Yukimura: So, I don't know if, so now you've heard the question but I don't know if it's going to take 45 seconds to answer, so I think we should cut and change the tape. Thank you, everybody stay in place.

There being no objections, the meeting recessed at 4:32 p.m.

The meeting reconvened at 4: 39 p.m. and proceeded as follows:

Ms. Yukimura: So we're, meeting is back in session everybody is awake now. Thank you. Could you explain that graph up above.

Mr. Hunt: Sure, absolutely.

Ms. Yukimura: Is it clear to the cameras or do we need to turn down the light. It's okay? Very good, thank you.

Mr. Hunt: This graph here, and I call this the ad valorem graph, and this really charts what people actually paid versus if they'd paid solely on value what they should have paid. And again zero is the baseline, so anything below zero essentially would be considered a subsidized class, anything above the line would be paying in excess of their based on value responsibility.

Ms. Yukimura: Above which line?

Mr. Hunt: Above the zero line.

Ms. Yukimura: Okay.

Mr. Hunt: And what this is, just so you understand how these numbers were generated, it took the budget that was...or the tax revenue that was generated by property taxes in 2002 of $41.7 million and divided it through by the gross valuation of $7.5 to $8 billion to come up with a unified tax rate of 554 across all categories. Then it applies that 554 to the assessed value in that category to determine what the taxes would have been at that 554 rate and compares it to their actual taxes. And if they paid more then they were considered...so if they paid less they were subsidized, and if they paid more they were paying more than their fair share based on value. And again, it has nothing to do with exemption programs or caps or preferred rates or anything else, it's just pure value equals taxes. Here's the budget or here's the revenue derived by the County and what rate would that have to be to get there. So over a period from 2002 to 2011 if you look at the cumulative, essentially the homestead class which represent anywhere from about 26% all the way up to about close to 30% of the overall assessed value was subsidized in the amount of about $136.6 million during that period. Single family was subsidized about $26.7 million whereas the apartment class overpaid by about $46.5 million and the hotel and resort over by about $54.9 million and then ag at $29.8 million. Those are just kind of rough numbers to give you an idea about, if you're looking at value and you're looking at taxes, where the relief has been given either through rate, through exemption, or through cap. The two below the line obviously are the single family and the homestead.

Ms. Yukimura: Okay. Thank you. Any other questions? Councilmember Nakamura.

Ms. Nakamura: Thank you for asking this question. So, so the lowest line there on the graph is the homestead rate and just on pure value you're saying that they have been subsidized by the County over the past?

Mr. Hunt: Right. If you think about it...

Ms. Nakamura: Seven, nine years.

Mr. Hunt: I think at its peak around seven or eightish around there, I know the eight number off hand, it's about 7.8% I believe was the percentage of taxes that it paid but it represented over 28% or 29% of value. So if you look at that dichotomy where it's growing as a percentage of the overall tax base and value but is declining as to what they're paying in taxes. And as the other classes started to pay more during the run-up in value they were essentially shouldering some of the burden and as the values have come down the classes that are still tied to value that don't have relief through either lower rates or exemptions or cap are now declining and that's where the $24 million that we're talking about, I think Councilmember Bynum called it relief, really is just not relief it's an adjustment to value and its proportional taxes.

Ms. Nakamura: So the primary sources of that subsidy is the exemptions and the cap.

Mr. Hunt: And the rates.

Ms. Nakamura: And the rates.

Mr. Hunt: We have the two classes just rate alone are substantially below the other rates and when you throw on exemptions and then cap on top of that, the cumulative effect obviously can be seen in this graph.

Ms. Nakamura: What of those three would be the most...would you attribute the subsidy most to?

Mr. Hunt: I think it's a combination of rate and cap.

Ms. Nakamura: Thank you.

Ms. Yukimura: Other questions? Go ahead.

Mr. Bynum: Just some of the terms I'm not that comfortable with.

Mr. Hunt: Okay.

Mr. Bynum: Especially subsidy, because if we charted every community in the Country we'd see something similar to this right? I mean, I don't know of any municipality that...anyway, that doesn't give some tax, what is the term you used?

Ms. Yukimura: Subsidy.

Mr. Bynum: Subsidy to the homestead...the homeowners.

Mr. Hunt: Right. And I'm not disagreeing that that's not warranted.

Mr. Bynum: Right.

Mr. Hunt: What I'm saying is the magnitude, and this really tells you the spread when you start having 29%-30% of your tax base paying 7%-8% of taxes originally coming from paying 12% or 13%. There was definitely a shouldering of the burden, tax burden, as the revenue grew by other classes. What the magic number is...

Mr. Bynum: A policy decision. The magic number is a policy decision right?

Ms. Yukimura: Yes. So, just to make sure I understand it, if there was no subsidy for the homestead class, it would be at zero? It would be up at the zero line?

Mr. Hunt: If all of these classes paid the same tax rate with no exemptions, no tax relief programs, value times tax rate equals taxes, all of them would be on the zero line, there would be no variance between what they paid and what they should have paid.

Ms. Yukimura: Right. Okay. And, in terms of policy, Councilmember Bynum says that our...like any community we would give some breaks to residential. It would seem in Hawai'i where the world is the market for our real estate that if we're to have people continue to live here people who have been born and raised here that you would need even greater subsidy because compared to Las Vegas or Oklahoma or even some parts of California maybe, they don't have those market dynamics. Plus, a resort area also raises the value of taxes so there's some real understandable policy reasons for giving these fairly substantial subsidies. On the other hand, if you measure by taxes, actual dollar amounts, the amounts that people are paying for their property, comparable properties here are lower than many places on the mainland.

Mr. Hunt: Absolutely.

Ms. Yukimura: And then you go to – well what are the service charges for each household which gets us in the smart growth area because the more spread out development is more expensive to service. But, I do recall in our solid waste study that they said at one point, I'm not sure if they kept it in the study, but that our solid waste service operational amounts cost per household on the average, were $1,500.00 a year. If people are paying on the average residential rates $1,000.00 a household, that's not even covering solid waste compared to police and then there's police and fire and parks and everything else. So, those are the different things we have to hold in consideration as we set policy. Any other questions of the Administration? If not, thank you very much gentleman.

Mr. Hunt: Thank you.

The meeting was called back to order, and proceeded as follows:

Ms. Yukimura: So we're back in session and we have before us two bills, Bill No. 2408, the Chair at this point would recommend a deferral. Is there any discussion before I ask for a motion to defer? Yes?

Mr. Bynum: I just want to thank my colleagues. I want to thank my colleagues for having patience with this discussion. I've waited a long time to have this discussion. We need to continue I believe in the coming months and you know when this all comes down to policy and I'm straight up. I believe for Hawai'i and I think Councilmember Yukimura talked about some of the unique characteristics of living here and that includes state income tax, GE tax, that's really regressive, this is a tough place to be a middle class working person. The whole world economy has...there's all kinds of really sad stories, businesses that are gone, foreclosures in the millions including here on Kaua'i. Government can't fix all of that. But we can set a policy that I think is appropriate that this Council seem to be totally engaged in the early part of this decade of saying the people who live and work in their homes here should pay a low tax rate and we should try to keep that low. That chart that Steve shows is that it came down significantly, it's the same chart I showed over a ten year period. Different numbers, but showing the same phenomenon right, that the burden that is (inaudible) by homeowners went down and I thought that we would bring it down and we would keep it there by properly managing our tax system going forward. But it's gone back up so I'm hopeful that we will deal with the inequity. My two goals that I said from the beginning, I'd like to bring taxes down for the working class people here and for rent which...by the way Bill No. 2417 has the most outstanding proposal to incentivize low rent. I really really want to acknowledge that because that was really thoughtful. I think that's where we should try to keep rents low for working class people; we should try to keep their taxes low and deal with this inequity. If somebody has a better way to do it than what was proposed in 2008, which I'm just proposing a modified version now that will deal with the inequity and keep taxes low for local people, please let's come together and find a way to do that. Thank you very much.

Ms. Yukimura: Thank you. Any further discussion? Yes Councilmember Chang?

Mr. Chang: Thank you first of all. And again I apologize because I just kind of jumped in and being a noncommittee member but I want to say a couple of things. Number one I want to thank the Administration for letting us know what your proposals are and one of the things I want to say is I want to thank you folks for summarizing that it is important and that's the administration's position to review and consider the results of the up and coming CAFR. So I think that's very very important as we move ahead. I want to say a couple things and I'll try to be as quick as possible. I've had an opportunity to speak to various general managers and personnel as far as the hotels are concerned and it may sound like a small amount but hoteliers during the periods that we had the least amount of accupancy the hardest amount of time just to keep up with the Joneses spent a lot of money, money they didn't have to renovate. Not only to renovate but to keep their employees working, not only working but keep them working with benefits. I mean we got two hotels if I'm not mistaken went to foreclosure, many...there's a hotel that's sitting on a restaurant that we're hoping to employ people that might not open until March, there's one right around the corner a hotel restaurant that we might lose. I mean it's not an easy thing out there, but which is what I would like to say and I really want to commend and I have to say to our Finance Chair Councilmember Bynum, the amount of work that he's done to put this on the forefront, we all want to give relief to the homeowners, to the middle-class, there's a lot of sorrow and suffering out there, and I know we can all share that. But what I think is very important for the public and for everyone to know, we make a statement regarding 2008 through 2011, taxes by class and year increase-decrease, I think it's important to note that there was a potential perhaps we may have on paper lost $24 million, but it's $24 million we never had. It was $24 million that was not in the bank. So to say we lost $24 million, I don't think that's an accurate statement. So I don't, I want the public to understand that we don't have, we never had that money, but what is real is if we lose the TAT for example or our property assessments are whatever, $5 or $6 million short, we want to give back a refund of $5.4 million, where are we going to recover that kind of money down the line? I mean three years ago is totally different from this year. Three years from now is going to be totally different from what was happening in 2008, 2011, 2014, 2015 etc. Who knows what's going to happen with the cost of a barrel of oil or what the airfare, that's how vulnerable we are. Natural disasters or acts of God we cannot control, there's so many people on this island right now that a big part of the buzz is according to Surf Rider Foundation, Save Our Seas, Malama Mahaleupu, various organizations that are very concerned because we all know that there is a debris we can't put a finger on that's coming in from Japan is as close as Midway Island moving down the chain and in I don't know scientists are trying to figure out 6 months, one year, in intervals of 3-5 years what happens if that hits our island of Kaua'i, what does that do for the landfill? What does that do for the debris that might hit Ni'ihau? That debris is going to be picked up by Kauai people and by the state and it's got to be disposed somewhere. Does it get disposed on our nearly filled capacity landfill? What happens when we need money that we need and I am very concerned and I have to say this, the transient accommodation tax, our TAT I don't believe that the state is entitled to give us the money. Anything can happen and I think it's not a good message until we find out what the CAFR is, to find out exactly what kind of money we have. I just want to be very very cautious and I just hope that we really think this into thought and again I want to appreciate everything that Councilmember Bynum has done because I am a homeowner, everybody wants a refund but when you say to yourself, well we'll figure it out year-by-year what's going to happen or how we're going to make this happen, when you give somebody a refund how do you know the next year when you got to try and make back money, by the way we gave you a refund last year but we have to take a little bit back or this...I don't know but I believe that there's a lot of questions that need to be asked and I'm very cautious and I don't want to be a damper but I do have concerns. That's just what I wanted to say. Thank you.

Ms. Yukimura: Thank you. So any more discussion? If not, Chair entertains a motion to defer.

Upon motion duly made by Councilmember Bynum, seconded by Councilmember Nakamura, and unanimously carried, Bill No. 2408 was deferred pending further analysis and receipt of communication from the County Attorney's Office.

Ms. Yukimura: So now, we're on the next Bill.

There being no further business, the meeting was adjourned at 5:11 p.m.

Respectfully submitted,

Ihilani C.J. Laureta
Secretary

APPROVED at the Committee Meeting held on February 8, 2012:

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CHAIR, FINANCE/PARKS & RECREATION/ PUBLIC WORKS PROGRAMS COMMITTEE